
Sourcing Assessment FY10 Supplement

December 30, 2010

Contents

- Executive Summary
- Assessment Approach
- Spend Summary
- Procurement Opportunity Summary
- Detailed Category Reports
- Appendix

Executive Summary

This report delivers detailed category assessments for 32 spend categories to identify an opportunity for North Carolina to pursue annual procurement savings of \$46M-96M^{1,2,3} based on spend from State Agencies and Community Colleges.

- This report leverages the 2009 Spend Assessment Final Report as combined with FY'10 spend data, contract research and NC stakeholder interviews to meet the objectives of: A) confirming the understanding of purchasing patterns, B) identifying any major anomalies that were not captured within the data analyzed, C) reviewing savings targets, and D) assessing ease of implementation for each category.
- 32 spend categories were identified as having the highest opportunity for savings. Detailed Category Reports illustrate the State's potential for savings in each of these spend categories by providing spend profiles, industry summaries, NC-specific observations, and leading practice sourcing strategies.
- These annual savings are based on spend from State Agencies and Community Colleges; savings could be greatly expanded by leveraging spend from Universities, LEAs and/or Local Governments.
- In order to achieve as much of these savings as practical, the State should launch a multi-wave strategic sourcing program to address each of the 32 spend categories over the course of the next 20-30 months.
- Immediate next steps would include the State agreeing on the wave timing of each category to serve as input into the final strategic sourcing Implementation Plan.

Notes:

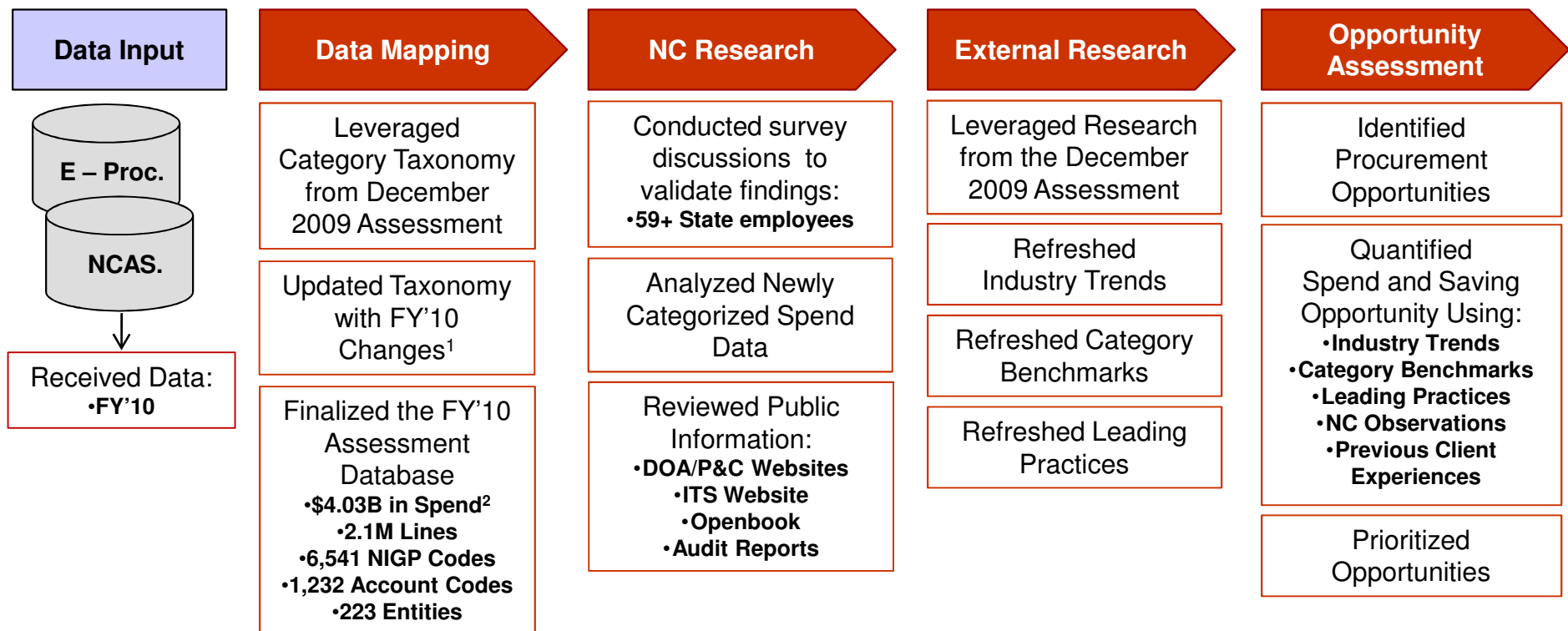
1. Total annual savings will not be realized until the completion of the Strategic Sourcing Implementation Phase.
2. Annual savings are recurring and independent of funding source.
3. Actual savings realized will be impacted by factors such as the elimination of federal stimulus funds and budget reductions, and will be further dependent on the details of governance, organizational, and statutory changes.
4. The 'spend data' in this report includes direct payment data from NCAS and purchase order data from eProcurement, and does not necessarily represent the exact dollar amount actually paid to third party vendors.

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Assessment Approach - Overview

Spend reports and savings opportunity identification are the result of a seven week assessment process consisting of data analysis, research, and opportunity assessment.



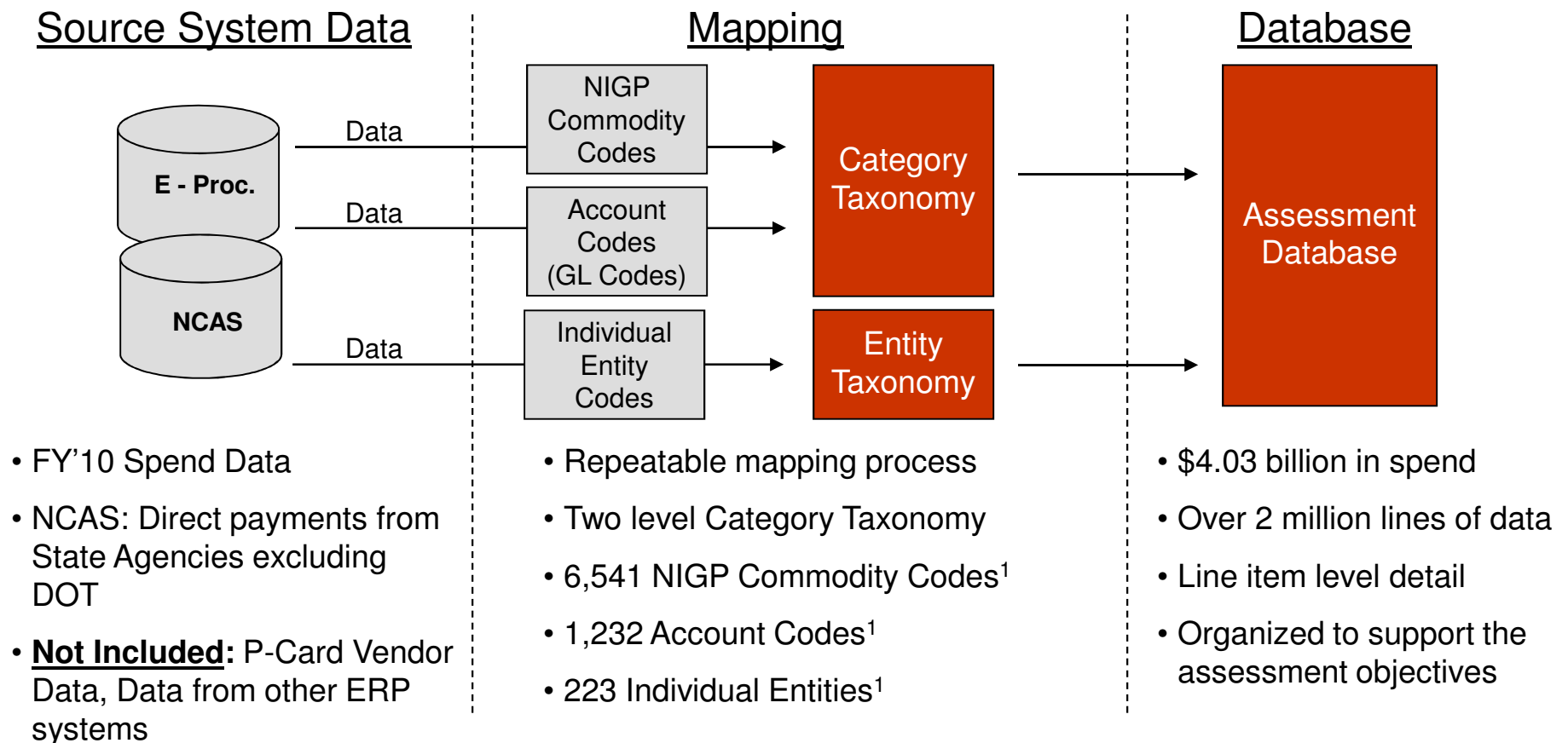
Notes:

1. NIGP Codes, Account Codes, and Entity mappings were updated to reflect spend captured in FY'10 data from eProcurement and NCAS.

2. The 'spend data' in this report includes direct payment data from NCAS and purchase order data from eProcurement, and does not necessarily represent the exact dollar amount actually paid to third party vendors.

Assessment Approach – Data Mapping

Source system data was mapped to the Category and Entity Taxonomy in order to develop a database which would support the objectives of the assessment.



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Assessment Approach – Data Mapping

7,773 system classification codes were mapped to the Category Taxonomy, and the 223 individual entity codes were mapped to one of five Entity Groups.

Category Taxonomy

- 21 Category Groups
- 93 Categories

Sample Mapping			
NIGP/Account Code	NIGP/Account Code Description	Category Group	Category
533110	GENERAL OFFICE SUPPLIES	Office	Office Supplies
615-47	615-47 - Office : File Guides	Office	Office Supplies
53341000306	FOODSUPP-BREAD/BAKERY	Food	Food
019-30	019-30 - Agri. Crops : Corn	Food	Food
534531	WAN EQUIPMENT	IT	Network Equipment
204-37	204-37 - Pc: Drives, Tape For Microcomputers	IT	Micro Computers and Peripherals

Source System Data

Category Taxonomy

Entity Taxonomy

- 5 Entity Groups
- 223 Individual Entities¹

Sample Mapping			
Entity Code	Entity Code Description	Entity Group	Individual Entity
11	Department of Labor	State Agency	Department of Labor
13	Department of Administration	State Agency	Department of Administration
CACC	Carteret Community College	CC	Carteret Community College
CCHA	Chatham County	Local Gov	Chatham County
LJON	Jones County Schools	LEA	Jones County Schools
UECU	East Carolina University	University	East Carolina University

Source System Data

Entity Taxonomy

Notes:

1. 26 DHHS entities were combined into a single entity represented as 'DHHS' in the subsequent slides.

2. The 'spend data' in this report includes direct payment data from NCAS and purchase order data from eProcurement, and does not necessarily represent the exact dollar amount actually paid to third party vendors.

Assessment Approach – Limitations and Assumptions

Limitations and Assumptions

- Line item data was not rationalized or cleansed, only mapped into the category taxonomy
 - Further spend analysis required during Strategic Sourcing Implementation to validate spending for each category
- Unspent volumes of blanket POs identified in stakeholder survey discussions were removed from addressable spend
- Direct pay spend data received from North Carolina is assumed to be complete and accurate
- 'Minimum Contracted Spend' identified by category represents contracted spending as flagged in eProcurement in the contract type field
 - Direct pay data does not include indicators for on/off contract spending
- Publicly available, state owned sources of procurement information are assumed to be accurate and current if not explicitly confirmed through stakeholder survey discussions

Assessment Approach – Updates from the December 2009 Assessment

As compared to the December 2009 Assessment, the total categories in the spend analysis dropped from 95 to 93, and the target sourceable categories dropped from 36 to 32.

- The total count of spend categories was reduced from 95 to 93:

Previous Categories	New Category	Impact
•Architecture Services •Engineering Services	•Architecture and Engineering Services	Categories Combined
•Fuel Oil and Diesel •Gasoline and Gasohol	•Fuels	Categories Combined
•Building Management Services •Construction Services	•Construction and Building Management Services	Categories Combined
•Administrative Services	•Administrative Services •Health Plan	Category Divided

- The total count of target sourceable categories was reduced from 36 to 32:

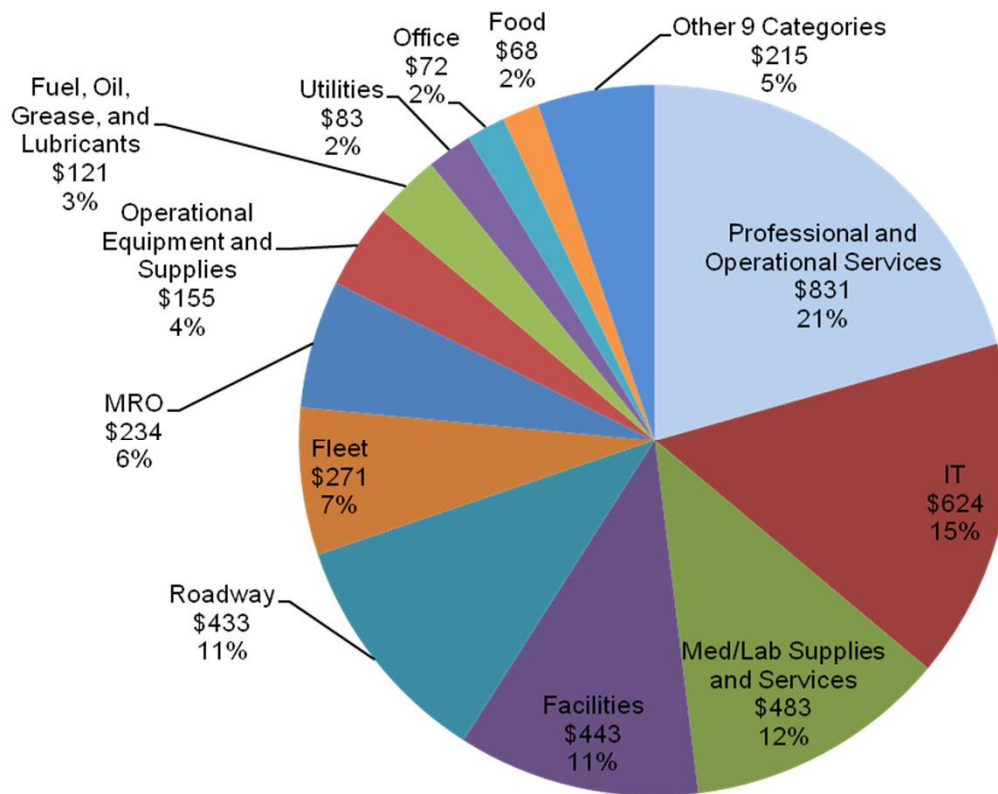
Previous Categories	New Category	Impact
•Building Management Services •Construction Services	•Construction and Building Management Services	Categories Combined
•Fuel Oil and Diesel •Gasoline and Gasohol	•Fuels	Categories Combined
•Anti-Skid	•N/A	Category Removed
•Natural Gas	•N/A	Category Removed
•Human Services	•N/A	Category Removed
•N/A	•Safety and Security Supplies	Category Added

Contents

- Executive Summary
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Spend Summary – Category

The \$4.03 billion FY'10 (all eProcurement spend plus NCAS State Agency direct payments) spend is spread across 21 category groups.



Category Group	Spend (M)	% of Total
Professional and Operational Services	\$831	21%
IT	\$624	15%
Med/Lab Supplies and Services	\$483	12%
Facilities	\$443	11%
Roadway	\$433	11%
Fleet	\$271	7%
MRO	\$234	6%
Operational Equipment and Supplies	\$155	4%
Fuel, Oil, Grease, and Lubricants	\$121	3%
Utilities	\$83	2%
Office	\$72	2%
Food	\$68	2%
Misc	\$59	1%
Safety and Security	\$39	1%
Subscriptions and Information	\$32	1%
Travel and Event Services	\$24	1%
Distribution	\$23	1%
Print	\$19	0%
Out of Scope	\$12	0%
Animals and Animal Supplies and Services	\$4	0%
Aircraft and Airport	\$2	0%
Total Spend	\$4,032	100%

Observations & Insights

- Top 7 category groups represent 80% of the total spend, with the top 3 category groups representing 48% of the spend
- Category groups vary in the diversity of goods or services contained within them

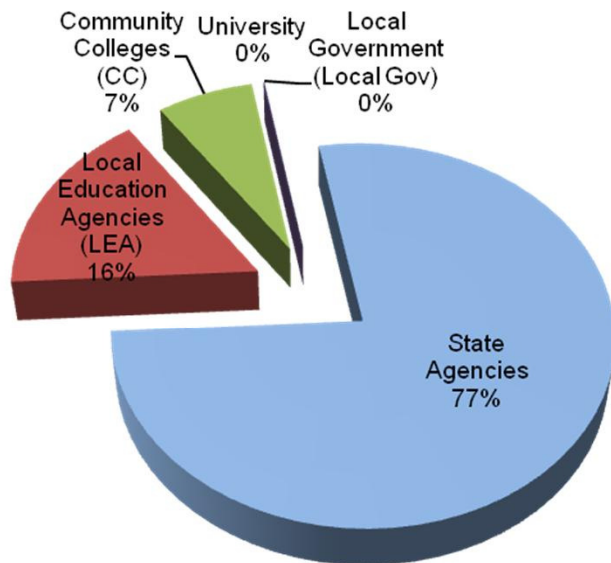
Notes:

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2. Spend Summary reports are based solely on the FY'10 source data from NCAS and eProcurement.

Spend Summary – Entity

State Agency spend accounts for 77% of total spend analyzed with top 10 entities representing 67% of total spend.

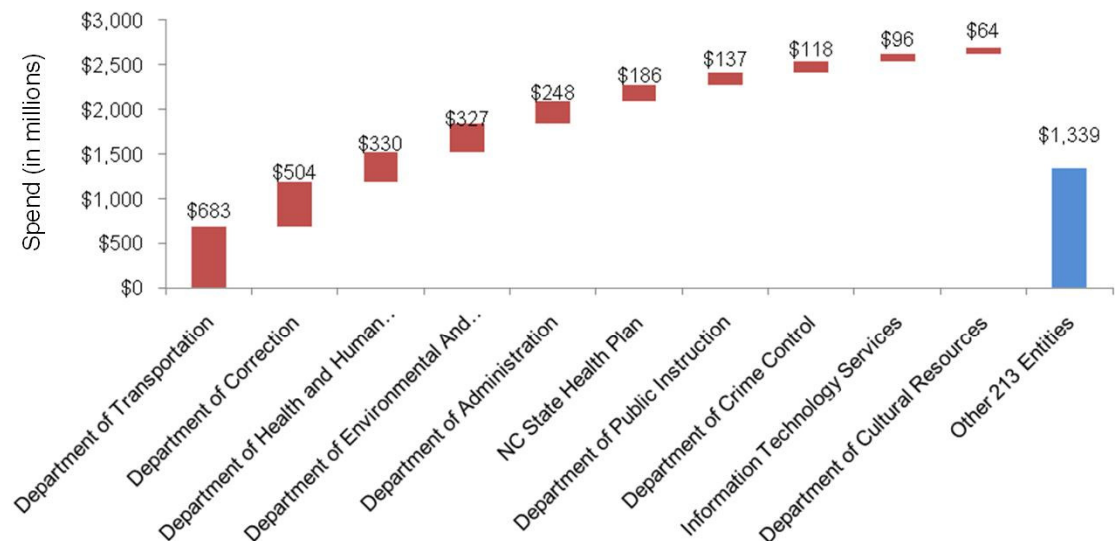
- Spend by Entity Group -



Observations & Insights

- 99% of spend is with the top three entity groups
- State Agencies account for 77% of total spend with LEAs accounting for 16% of total spend

- Top Entities by Spend*-



*Note: 26 individual entities were combined to generate overall DHHS spend

Observations & Insights

- The top 10 individual entities represent 67% of the total spend with the remaining 213 entities accounting for the remaining 33%
- The Department of Transportation is the largest individual entity with 17% of total spend

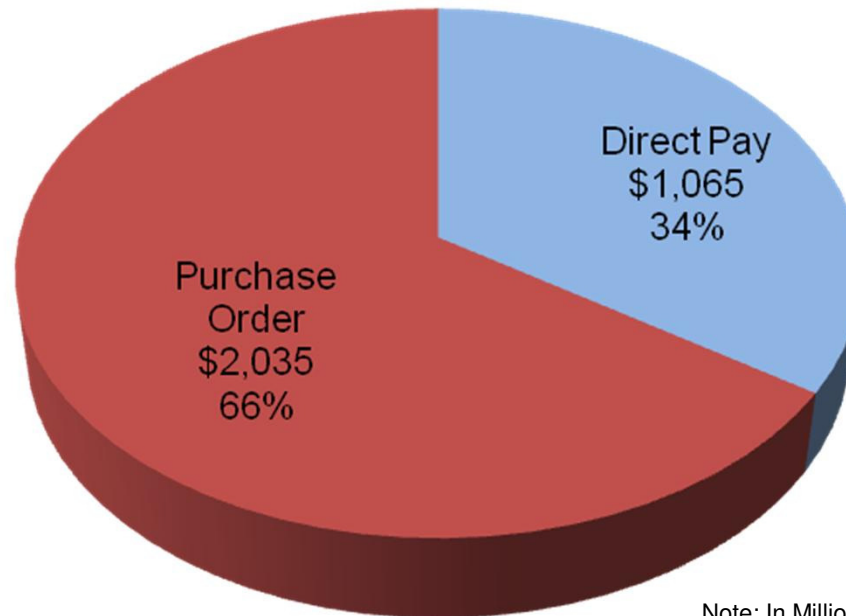
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Spend Summary – Transaction Type

Direct payment transactions account for 34% of total State Agency spending with individual entities varying widely in their usage of direct pay (DP) transactions.

- State Agency Spend by Transaction Type -



Note: In Millions

Observations & Insights

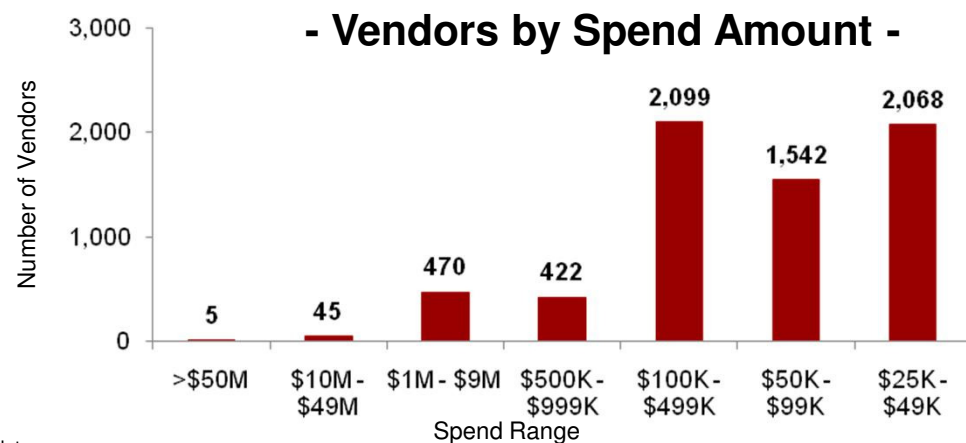
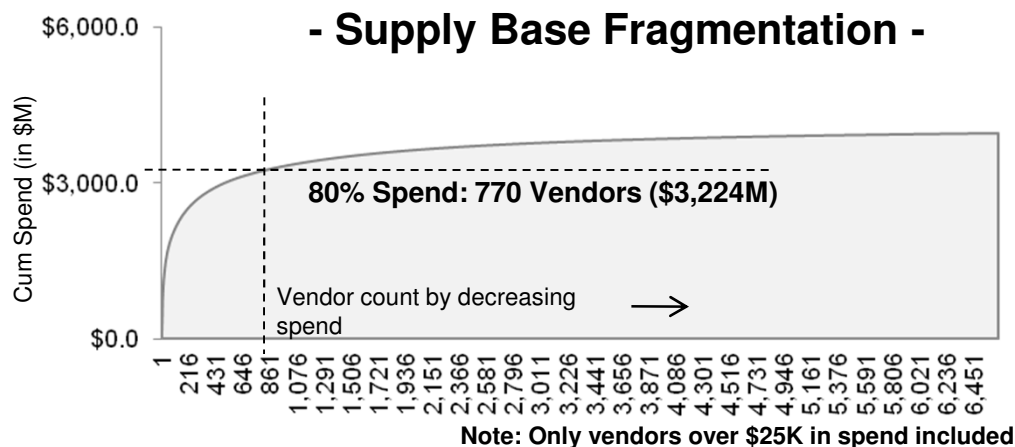
- Direct payment transactions were only captured for State Agencies (not including DOT)
- Purchase order transactions produce more transaction detail and subsequent tracking detail when compared to direct payment transactions
- Direct pay transactions have a higher likelihood of being off-contract purchases
- Individual entities in the State Agency Entity Group ranged from 100% to 0% of spend through direct payment transactions

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Spend Summary – Supply Base

The top 770 vendors by spend represent 80% of the total, with the top 20 vendors accounting for 32% of spend and 520 vendors having \$1 million or more in spend.



- Top 20 Vendors by Spend¹ -

Vendor	Spend (M)	% of Total
United Veteran Services of Nor	\$160.0	4.0%
Emery Asphalt	\$131.8	3.3%
BLUE CROSS BLUE SHIELD OF NC	\$130.8	3.2%
INFORMATION TECHNOLOGY SVCS	\$125.2	3.1%
Slurry Pavers, Inc.	\$119.8	3.0%
Cardinal Health Pharmaceutical	\$88.7	2.2%
DELL - NON-CATALOG ONLY	\$63.4	1.6%
NC Department of Correction	\$54.3	1.3%
BALFOUR BEATTY CONSTRUCTION	\$51.0	1.3%
CLANCY & THEYS CONSTRUCTION CO	\$73.0	1.8%
SUNTRUST LEASING CORPORATION	\$40.5	1.0%
DOA MOTOR FLEET MANAGEMENT	\$40.4	1.0%
Carolina Tractor & Equipment	\$38.7	1.0%
Whites International Trucks	\$27.5	0.7%
PROGRESS ENERGY CAROLINAS INC	\$26.6	0.7%
CDW GOVERNMENT LLC	\$26.5	0.7%
Brasfield & Gorrie, LLC	\$25.8	0.6%
UNC Health Care Trauma Program	\$25.0	0.6%
Hewlett Packard - 204 A, J	\$24.2	0.6%
PETROLEUM TRADERS CORPORATION	\$24.1	0.6%
Other 34,034 Vendors	\$2,734.7	67.8%
Total	\$4,031.9	100.0%

Notes:

- Top vendors listed in descending order as included in the source spend data from NCAS and eProcurement. Spend with governmental entities represents transfers for goods or services delivered by that entity.
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- Spend Summary reports are based solely on the FY'10 source data from NCAS and eProcurement.

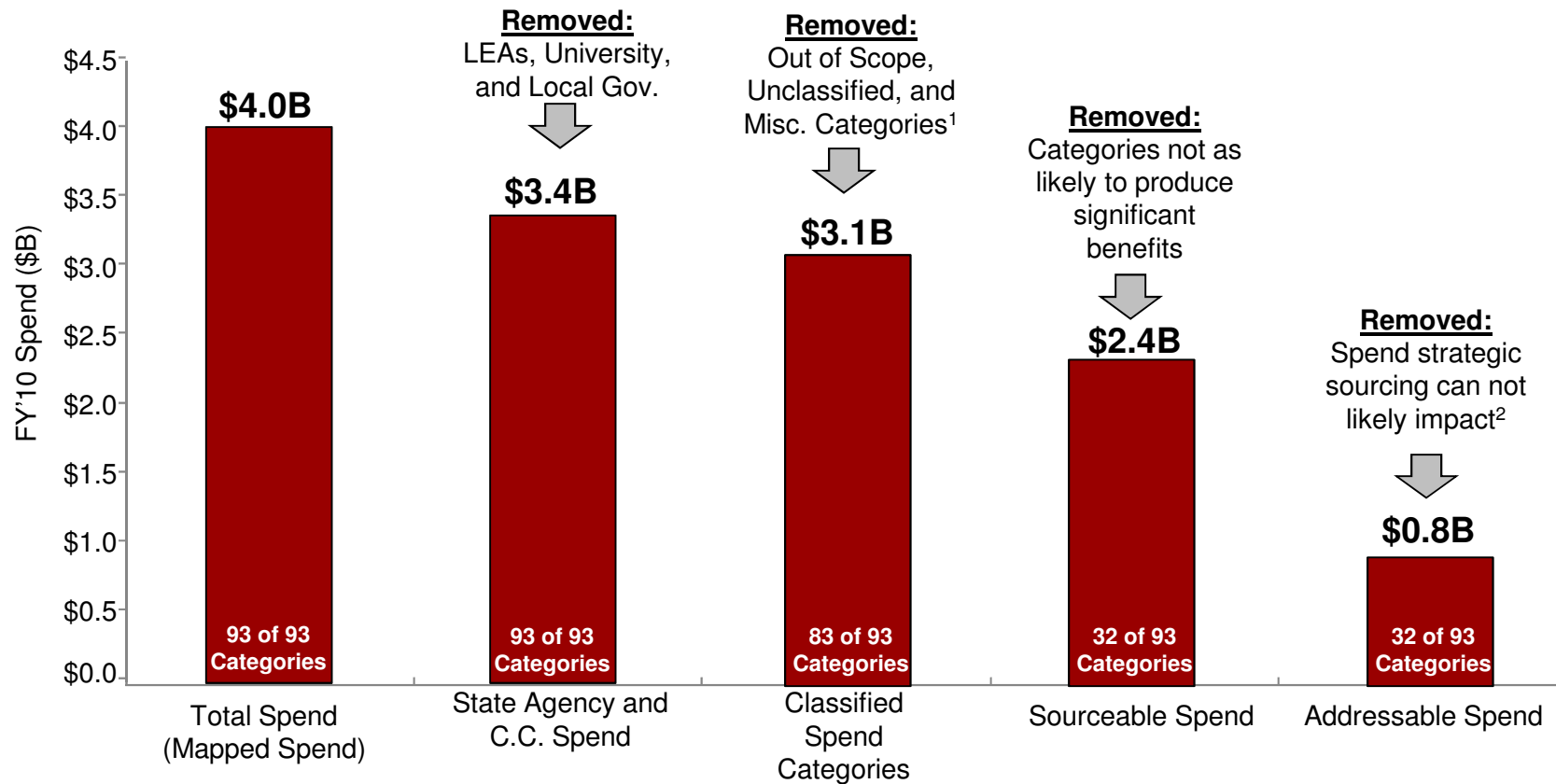
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Procurement Opportunity Summary - Identify

The FY'10 \$4.03 billion total spend was filtered several times to identify the spend most likely addressable through strategic sourcing.

Addressable Spend Identification Process



Notes:

1. Removed examples include - Out of Scope: Training reimbursements, Employee physicals, etc; Unclassified: Veterinary fees for K-9s, personal hygiene items, etc; Misc. Categories: oyster shells, campaign fees, etc
2. Removed examples include - Payments to internal service funds, unspent blanket POs for road aggregate, construction services spend, emergency room care, hospital-provided medical services, etc
3. The 'spend data' in this report includes direct payment data from NCAS and purchase order data from eProcurement, and does not necessarily represent the exact dollar amount actually paid to third party vendors.

Procurement Opportunity Summary - Identify

Of the 93 individual categories, 83 are classified and 32 of those are deemed sourceable. These 32 categories are the most likely to yield significant savings for North Carolina.

Aircraft and Airport	\$2M
Aircraft and Airport Equipment and Parts	
Aircraft and Airport Services	
Animals and Animal Sup. and Svcs.	\$4M
Animal Food	
Animal Supplies and Equipment	
Live Animals	
Unclassified Animals and Related	
Veterinary Equipment	
Distribution	\$23M
Freight and Freight Supplies	
Warehousing and Storage Services	
Facilities	\$443M
Construction and Building Management Services	
Furniture and Fixtures	
Housewares and Appliances	
Interior Design Services	
Rent/Real Estate	
Unclassified Facilities	
Fleet	\$271M
Auto	
Auto Service and Parts	
Industrial Equipment and Service	
Industrial Equipment Rental	
Marine Equipment and Supplies	
Rail Equipment and Parts	

Food	\$68M
Food	
Food Equipment	
Food Services	
Fuel, Oil, Grease, and Lubricants	\$121M
Fuels	
Heating Oil	
Unclassified Fuel and Oil	
IT	\$624M
AV Equipment	
Cellular Services and Equipment	
Data Processing Cards	
IT Services	
Micro Computers and Peripherals	
Mini/Mainframe Computers and Peripherals	
Network Equipment	
Radios and Communication Equipment	
Software	
Telecommunications	
Med/Lab Supplies and Services	\$483M
Drugs and Pharmaceuticals	
Health Services	
Human Services	
Med/Lab Supplies and Equipment	
Misc	\$59M
Misc Services	
Misc Supplies	
Unclassified Misc	

MRO	\$234M
Agricultural Equipment and Supplies	
Cleaning Equipment and Supplies	
HVAC Equipment and Supplies	
MRO Equipment Maintenance	
MRO Supplies and Equipment	
Water Supply Equipment and Supplies	
Office	\$72M
Office Equipment	
Office Supplies	
Operational Equipment and Supplies	\$155M
Art and Entertainment Supplies	
Barber and Beauty Shop Supplies	
Clothing and Apparel	
Education Supplies	
Operational Equipment Maintenance	
Printing Plant Equipment and Supplies	
Recreational Equipment	
Unclassified Operational	
Out of Scope	\$12M
Out of Scope	
Print	\$19M
Print	
Roadway	\$433M
Anti-Skid	
Roadway Building Materials	
Traffic Control	
Safety and Security	\$39M
Safety and Security Equipment and Supplies	
Safety and Security Services	

Subscriptions and Info.	\$32M
Publications and AV Materials	
Professional and Operational Services	\$831M
Administrative Services	
Advertising and Marketing	
Architectural and Engineering Services	
Consulting Services	
Education Services	
Environmental Services	
Financial Services	
Health Plan	
Insurance Services	
Legal Services	
Library Services	
Lottery Management Services	
Public Works Services	
Unclassified and Misc Services	
Travel and Event Services	\$24M
Air	
Event Services and Supplies	
Ground	
Lodging	
Meals	
Travel Management Services	
Unclassified Travel	
Utilities	\$83M
Electricity	
Natural Gas	
Unclassified Utilities	
Water	

32 : Classified & Sourceable Categories

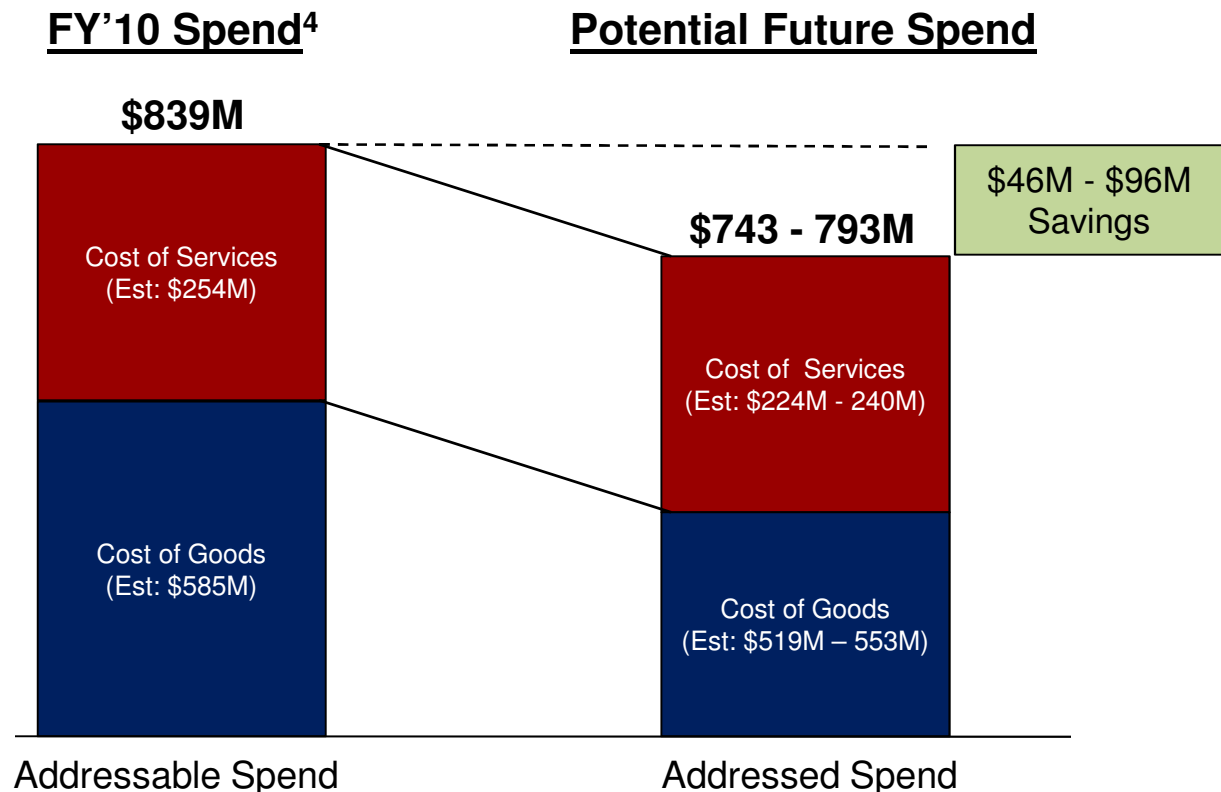
51 : Classified but Non-Sourceable Categories

Procurement Opportunity Summary - Quantify

North Carolina has the opportunity to achieve a potential \$46M - 96M^{1,2,3} (5%-11%) in annual savings for State Agencies and Community Colleges by pursuing opportunities in the 32 sourceable categories.

Key Elements:

- Assumes the same amount of goods and services will be purchased over the same time period in the future
- Total Cost of Ownership spend reductions
- Includes only opportunities within the 32 sourceable categories



Notes:

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2. Annual savings are recurring and independent of funding source.
3. Actual savings realized will be impacted by factors such as the elimination of federal stimulus funds and budget reductions, and will be further dependent on the details of governance, organizational, and statutory changes.
4. Goods vs. services split is approximate and identified at the category level.
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Procurement Opportunity Summary - Quantify

The major indicators of opportunity observed during this sourcing assessment remain consistent with those reported in the December 2009 Assessment.

- **The supply base for at least 60% of sourceable categories is highly fragmented, diminishing the State's buying power**
 - A high number of vendors typically comprise the top 80% of category spend
 - Most categories have a high number of total vendors
- **Inconsistent purchase prices for the same or similar items**
 - North Carolina pays different prices for the exact same or similar items suggesting inconsistent buying and/or contracting practices
- **Statewide contracts are narrowly scoped and sometimes renewed numerous times instead of being competitively bid**
 - Multiple contracts exist for groups of items which could be purchased together based on supply market organization and capability
 - Contracts are renewed multiple times without being competitively bid
- **Updated leading practice purchasing strategies have not been pursued in particular areas**
 - Leading practice purchasing strategies evolve over time as technologies and product/service offerings advance; taking advantage of these changes in leading practice purchasing strategies can lead to substantial benefits

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Procurement Opportunity Summary - Quantify

The \$839M in addressable spend might hold potential annual savings of as much as \$46M - 96M^{1,2,3} upon completion of three waves of a strategic sourcing program.

Category	Addressable Spend (\$M)	Savings Low (\$M)	Savings High (\$M)
Administrative Services	\$9.0	\$0.7	\$1.3
Advertising and Marketing	\$25.7	\$1.3	\$2.6
Agricultural Equipment and Supplies	\$7.0	\$0.6	\$0.8
Architecture and Engineering Services	\$28.2	\$1.4	\$2.5
Auto	\$73.9	\$3.7	\$7.4
Auto Service and Parts	\$20.8	\$0.8	\$2.5
Cleaning Equipment and Supplies	\$5.1	\$0.5	\$1.0
Construction and Building Management Services	\$45.8	\$2.3	\$6.9
Drugs and Pharmaceuticals	\$21.7	\$0.4	\$1.7
Food	\$37.8	\$3.0	\$5.7
Freight and Freight Supplies	\$11.0	\$0.6	\$1.1
Fuels	\$43.1	\$0.9	\$1.7
Furniture and Fixtures	\$11.8	\$0.6	\$1.2
Health Services	\$34.8	\$1.7	\$3.5
Industrial Equipment and Service	\$6.8	\$0.3	\$0.7
Industrial Equipment Rental	\$35.6	\$1.4	\$2.8

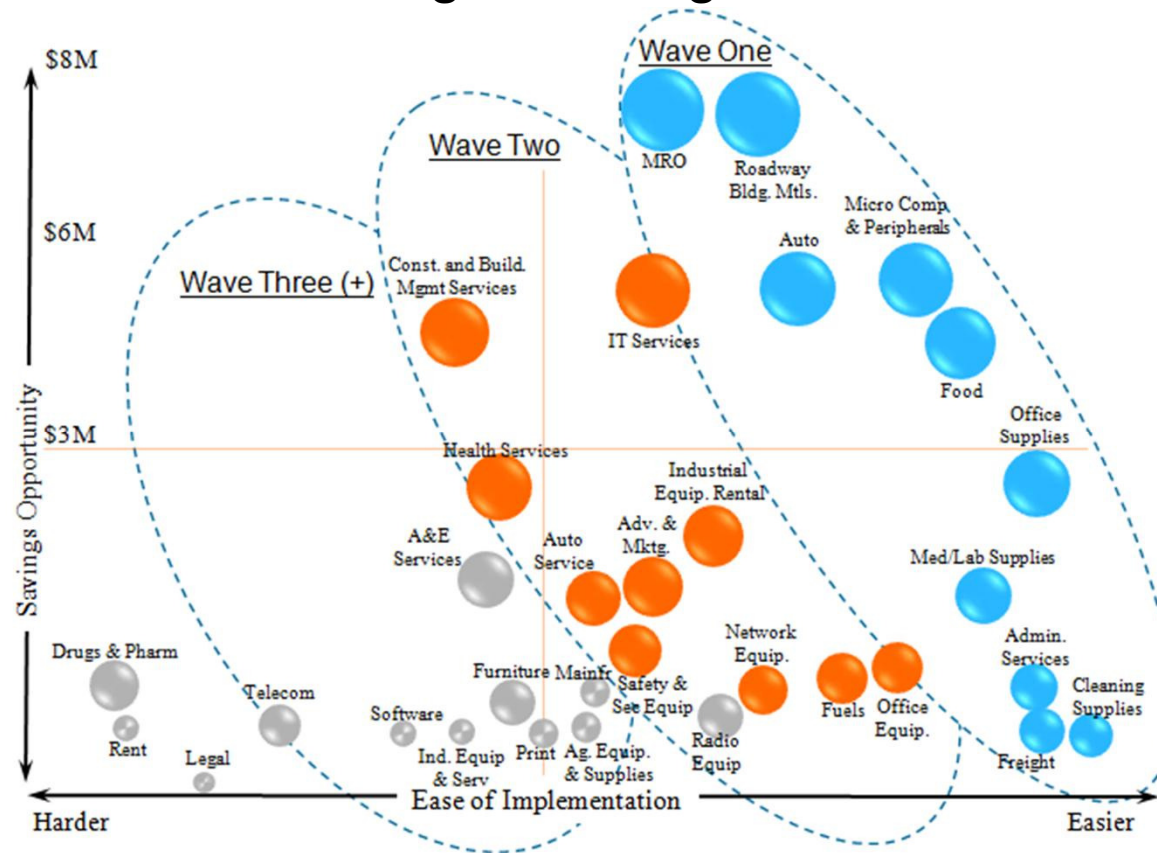
Category	Addressable Spend (\$M)	Savings Low (\$M)	Savings High (\$M)
IT Services	\$44.1	\$4.4	\$6.6
Legal Services	\$1.7	\$0.1	\$0.2
Med/Lab Supplies and Equipment	\$24.8	\$1.2	\$2.5
Micro Computers and Peripherals	\$38.1	\$3.8	\$7.6
Mini/Mainframe Computers and Peripherals	\$10.3	\$0.5	\$1.0
MRO Supplies and Equipment	\$66.8	\$5.3	\$10.0
Network Equipment	\$10.5	\$0.5	\$1.6
Office Equipment	\$8.6	\$0.9	\$1.7
Office Supplies	\$18.3	\$1.8	\$3.7
Print	\$7.6	\$0.4	\$0.8
Radios and Communication Equipment	\$15.0	\$0.3	\$1.5
Rent/Real Estate	\$12.5	\$0.4	\$0.9
Roadway Building Materials	\$125.2	\$5.0	\$10.0
Safety and Security Equipment and Supplies	\$13.5	\$0.7	\$2.0
Software	\$10.9	\$0.2	\$0.9
Telecommunications	\$13.0	\$0.3	\$1.3
Total	\$839.0	\$46.1	\$95.8

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Procurement Opportunity Summary - Prioritize

A recommended wave plan was developed based on savings opportunity estimates, ease of implementation elements, and the typical number of categories included in a strategic sourcing wave.



Recommended Sourcing Waves



Ease of Implementation Elements

- Category sourcing complexity
- Entity spend distribution
- Market conditions
- North Carolina readiness

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Procurement Opportunity Summary - Prioritize

Details - Wave 1 & 2

Sourcing Wave	Categories	Total Spend (\$M)	Addressable Spend (\$M)	Potential Opportunity	Potential Benefit (\$M)
Wave 1:	1. MRO Supplies and Equipment	\$134	\$67	8%-15%	\$5.3 - \$10.0
	2. Roadway Building Materials	\$417	\$125	4%-8%	\$5.0 - \$10.0
	3. Micro Computers and Peripherals	\$54	\$38	10%-20%	\$3.8 - \$7.6
	4. Auto	\$114	\$74	5%-10%	\$3.7 - \$7.4
	5. Food	\$54	\$38	8%-15%	\$3.0 - \$5.7
	6. Office Supplies	\$23	\$18	10%-20%	\$1.8 - \$3.7
	7. Med/Lab Supplies and Equipment	\$50	\$25	5%-10%	\$1.2 - \$2.5
	8. Administrative Services	\$36	\$9	8%-15%	\$0.7 - \$1.3
	9. Freight and Freight Supplies	\$22	\$11	5%-10%	\$0.6 - \$1.1
	10. Cleaning Equipment and Supplies	\$10	\$5	10%-20%	\$0.5 - \$1.0
Total:	10 Categories	\$914	\$410	6.2% - 12.3%	\$25.6 - \$50.3
Wave 2:	1. Construction & Build. Mgmt. Services	\$306	\$46	5%-15%	\$2.3 - \$6.9
	2. IT Services	\$221	\$44	10%-15%	\$4.4 - \$6.6
	3. Health Services	\$348	\$35	5%-10%	\$1.7 - \$3.5
	4. Industrial Equipment Rental	\$51	\$36	4%-8%	\$1.4 - \$2.8
	5. Advertising and Marketing	\$43	\$26	5%-10%	\$1.3 - \$2.6
	6. Auto Service and Parts	\$46	\$21	4%-12%	\$0.8 - \$2.5
	7. Safety & Security Equip. & Supplies	\$23	\$14	5%-15%	\$0.7 - \$2.0
	8. Office Equipment	\$14	\$9	10% - 20%	\$0.9 - \$1.7
	9. Fuels	\$62	\$43	2%-4%	\$0.9 - \$1.7
	10. Network Equipment	\$21	\$10	5%-15%	\$0.5 - \$1.6
Total:	10 Categories	\$1,135	\$284	5.2% - 11.2%	\$14.9 - \$31.9
Wave 1 & 2 Totals:	20 Categories	\$2,049	\$694	5.8% - 11.8%	\$40.5 - \$82.2

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Procurement Opportunity Summary - Details

Sourceable Category Overview – Wave 1 (page 1 of 2)

Category Group	Category	Total Spend	Addressable Spend	Potential Opportunity	Potential Benefit (\$M)	Approach Highlights
MRO	MRO Supplies and Equipment	\$134M	\$67M	8%-15%	\$5.3-\$10.0	<ul style="list-style-type: none"> • Aggregate demand and rationalize specifications • Consolidate the majority of demand to a key industry vendor capable of providing all products
Roadway	Roadway Building Materials	\$417M	\$125M	4%-8%	\$5.0-\$10.0	<ul style="list-style-type: none"> • Regionally aggregate demand • Establish contracts with prices tied to market indices • Increase visibility into transportation costs
IT	Micro Computers and Peripherals	\$54M	\$38M	10%-20%	\$3.8-\$7.6	<ul style="list-style-type: none"> • Increase spend volume through PC Bulk Purchase Program • Consolidate supply base for items not going through the Bulk PC Purchase Program • Negotiate peripheral equipment independent of PC bulk
Fleet	Auto	\$114M	\$74M	5%-10%	\$3.7-\$7.4	<ul style="list-style-type: none"> • Standardize vehicle types and establish preferred vendor contracts • Evaluate the ability to bundle with maintenance and repair
Food	Food	\$54M	\$38M	8%-15%	\$3.0-\$5.7	<ul style="list-style-type: none"> • Utilize a single distributor for all non-perishable food items • Standardized product specifications

Notes:

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2. Annual savings are recurring and independent of funding source.
3. Actual savings realized will be impacted by factors such as the elimination of federal stimulus funds and budget reductions, and will be further dependent on the details of governance, organizational, and statutory changes.
4. The 'spend data' in this report includes direct payment data from NCAS and purchase order data from eProcurement, and does not necessarily represent the exact dollar amount actually paid to third party vendors.

Procurement Opportunity Summary - Details

Sourceable Category Overview – Wave 1 (page 2 of 2)

Category Group	Category	Total Spend	Addressable Spend	Potential Opportunity	Potential Benefit (\$M)	Approach Highlights
Office	Office Supplies	\$23M	\$18M	10%-20%	\$1.8-\$3.7	<ul style="list-style-type: none"> • Rationalize SKUs; develop core list of frequently purchased items • Reduce number of suppliers • Monitor and enforce compliance
Med/Lab Supplies and Services	Med/Lab Supplies and Equipment	\$50M	\$25M	5%-10%	\$1.2-\$2.5	<ul style="list-style-type: none"> • Consolidate vendors to key industry vendor • Rationalize SKUs; develop core list of frequently purchased items • Develop category segmentation for equipment and supplies
Professional and Operational Services	Administrative Services	\$36M	\$9M	8%-15%	\$0.7-\$1.3	<ul style="list-style-type: none"> • Aggregate spend volume across agencies • Standardize and clearly define roles • Establish contracts with preferred vendors
Distribution	Freight and Freight Supplies	\$22M	\$11M	5%-10%	\$0.6-\$1.1	<ul style="list-style-type: none"> • Commoditized service, price is primary vendor differentiator • Reduce costs and improve service levels by consolidating supply base
MRO	Cleaning Equipment and Supplies	\$10M	\$5M	10%-20%	\$0.5-\$1.0	<ul style="list-style-type: none"> • Rationalize supply base and product SKUs • Engage key industry vendors to consolidate supply base • Enforce contract compliance • Understand relationship and potential overlap with Building Management category

Notes:

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Procurement Opportunity Summary - Details

Sourceable Category Overview – Wave 2 (page 1 of 2)

Category Group	Category	Total Spend	Addressable Spend	Potential Opportunity	Potential Benefit (\$M)	Approach Highlights
Facilities	Construction and Building Management Services	\$306M	\$46M	5%-15%	\$2.3-\$6.9	<ul style="list-style-type: none"> • Aggregate services across locations, segmenting by service type • Establish long-term contracts with vendors that are capable of providing services across multiple locations • Evaluate integrated facilities services model
IT	IT Services	\$221M	\$44M	10%-15%	\$4.4-\$6.6	<ul style="list-style-type: none"> • Segment spend to identify spend with staff augmentation vendors • Leverage spend to re-contract with staff augmentation vendors in order to move to a preferred supplier model
Med/Lab Supplies and Services	Health Services	\$348M	\$35M	5%-10%	\$1.7-\$3.5	<ul style="list-style-type: none"> • Rationalize vendors by sub-category • Standardize positions and develop rate cards • Source longer-term contracts (2-3 year) • Identify supply market capability organization
Fleet	Industrial Equipment Rental	\$51M	\$36M	4%-8%	\$1.4-\$2.8	<ul style="list-style-type: none"> • Utilize fact based negotiations with a TCO model to fulfill a preferred vendor model • Plan should compliment purchase and maintenance
Professional and Operational Services	Advertising and Marketing	\$43M	\$26M	5%-10%	\$1.3-\$2.6	<ul style="list-style-type: none"> • Thorough evaluation of current vendor fee structures to determine sourcing strategy, i.e. negotiate with incumbent versus market RFP • Develop preferred supplier relationships • Enact policies to enforce buyer compliance

Notes:

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Procurement Opportunity Summary - Details

Sourceable Category Overview – Wave 2 (page 2 of 2)

Category Group	Category	Total Spend	Addressable Spend	Potential Opportunity	Potential Benefit (\$M)	Approach Highlights
Fleet	Auto Service and Parts	\$46M	\$21M	4%-12%	\$0.8-\$2.5	<ul style="list-style-type: none"> • Rationalize vendors by establishing preferred vendor list based on selection through competitive process • Evaluate use of fleet management firms to manage parts and service for entire fleet
Safety and Security	Safety & Security Equipment & Supplies	\$23M	\$14M	5%-15%	\$0.7-\$2.0	<ul style="list-style-type: none"> • Segment spend by subcategories and develop a preferred supplier model via a strategic sourcing process • Incorporate market basket approach for top spend items to factor in volume and standardization
Office	Office Equipment	\$14M	\$9M	10%-20%	\$0.9-\$1.7	<ul style="list-style-type: none"> • Expand Managed Print Services program to other agencies • Standardize SKUs purchased through the bulk • Reduce total volume of desktop printers
Fuel, Oil, Grease, and Lubricants	Fuels	\$62M	\$43M	2%-4%	\$0.9-\$1.7	<ul style="list-style-type: none"> • Leverage volume across all petroleum products categories and all locations • Evaluate current fuel model to further define all elements in the TCO model • Renegotiate increased fuel card rebates
IT	Network Equipment	\$21M	\$10M	5%-15%	\$0.5-\$1.6	<ul style="list-style-type: none"> • Consolidate spend across entities and vendors • Explore aftermarket options • Optimize product lifecycle

Notes:

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Procurement Opportunity Summary - Details

Sourceable Category Overview – Wave 3 (page 1 of 2)

Category Group	Category	Total Spend	Addressable Spend	Potential Opportunity	Potential Benefit (\$M)	Approach Highlights
Professional and Operational Services	Architecture and Engineering Services	\$47M	\$28M	5%-9%	\$1.4-\$2.5	<ul style="list-style-type: none"> • Develop standardized role descriptions and establish rate cards with small set of preferred vendors • Establish and enforce SLAs with preferred vendors
Med/Lab Supplies and Services	Drugs and Pharmaceuticals	\$54M	\$22M	2%-8%	\$0.4-\$1.7	<ul style="list-style-type: none"> • Analyze current pricing from consortium contracting for potential expansion • Validate pricing with large distributors leveraging full spend • Increase use of generics
IT	Radios and Communication Equipment	\$25M	\$15M	2%-10%	\$0.3-\$1.5	<ul style="list-style-type: none"> • Highly specific products will require multiple vendors to support needs • Standardize products where possible • Renegotiate leveraging total vendor spend
IT	Telecommunications	\$43M	\$13M	2%-10%	\$0.3-\$1.3	<ul style="list-style-type: none"> • Consolidate supply base • Combine and leverage wireless and wireline spend/vendors where possible • Conduct ongoing telecom expense auditing
Facilities	Furniture and Fixtures	\$20M	\$12M	5%-10%	\$0.6-\$1.2	<ul style="list-style-type: none"> • Develop core catalog, rationalizing like items • Simplify commodity management and improve order cycle times • Include non-required entities in requirements gathering to increase spend on contract
IT	Mini/Mainframe Computers and Peripherals	\$17M	\$10M	5%-10%	\$0.5-\$1.0	<ul style="list-style-type: none"> • Standardize product specifications • Bundle with evaluation of maintenance and repair services, accessories, and data storage • Negotiate maintenance and installation fees at the time of purchase

Notes:
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Procurement Opportunity Summary - Details

Sourceable Category Overview – Wave 3 (page 2 of 2)

Category Group	Category	Total Spend	Addressable Spend	Potential Opportunity	Potential Benefit (\$M)	Approach Highlights
Facilities	Rent / Real Estate	\$62M	\$12M	3%-7%	\$0.4-\$0.9	<ul style="list-style-type: none"> • Review current lease agreements to understand current rates • Conduct structured, fact based negotiations to lower payments
IT	Software	\$36M	\$11M	2%-8%	\$0.2-\$0.9	<ul style="list-style-type: none"> • Evaluate software strategy at enterprise level • Develop strategy for acquisitions and ongoing maintenance
MRO	Agricultural Equipment and Supplies	\$14M	\$7M	8%-12%	\$0.6-\$0.8	<ul style="list-style-type: none"> • Increase use of long term contracts in supplies • Leverage equipment volume to reduce supply base and evaluate equipment lease versus buy
Operational Equipment and Supplies	Print	\$17M	\$8M	5%-10%	\$0.4-\$0.8	<ul style="list-style-type: none"> • Consolidate demand across agencies • Rationalize specifications • Establish long term contracts with preferred vendors
Fleet	Industrial Equipment and Service	\$17M	\$7M	5%-10%	\$0.3-\$0.7	<ul style="list-style-type: none"> • Evaluate possibility of leveraging spend with industrial equipment rental • Consolidate equipment and control at State level to increase buying power
Professional and Operational Services	Legal Services	\$17M	\$2M	4%-12%	\$0.1-\$0.2	<ul style="list-style-type: none"> • Establish primary and secondary provider model with standard rate card • Leverage purchasing power by consolidating supply base

Notes:

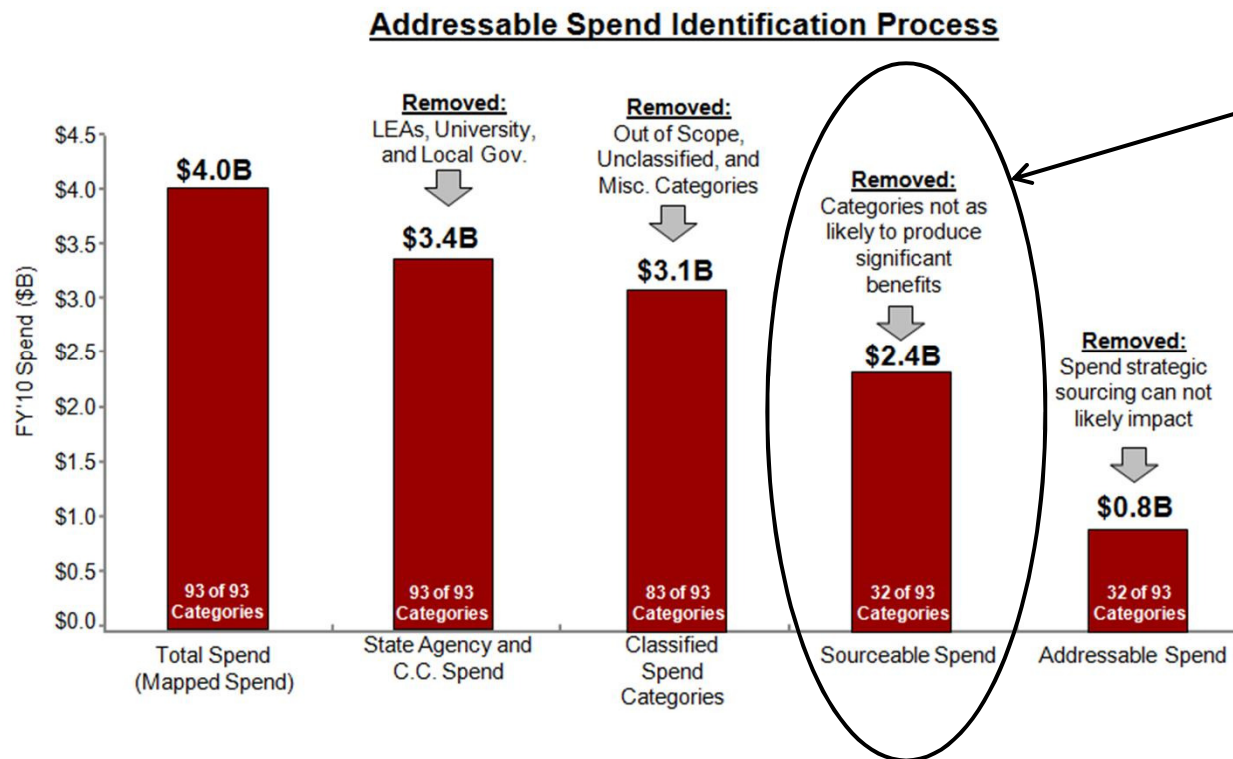
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Contents

- Executive Summary
- Assessment Approach
- Spend Summary
- Procurement Opportunity Summary
- Detailed Category Reports
- Appendix

Detailed Category Reports - Overview

The detailed category reports contained within this section profile the 32 sourceable categories as identified in the Addressable Spend Identification Process.



Detailed Category Reports

- One report for each of the 32 sourceable categories
- Includes FY'10 spend for only State Agencies and Community Colleges
- Savings estimates are for one year of spending for State Agencies and Community Colleges

Notes:

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Administrative Services Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$193.5M
Total Spend – FY '10		\$35.8M
Est. Addressable Spend	25%	\$9.0M
Savings Opportunity	8% - 15%	\$0.7M - 1.3M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- Outside of OSP, spending in this category is fragmented across multiple temporary services providers
 - 495 total vendors in category spend
 - Largest single vendor spend is 7% of the total spend
- Addressable spend includes only those vendors providing temporary services
 - Agency spend with OSP is excluded from addressable spend
- No state-term contracts were identified in this category
- Data shows lack of significant spend with leading vendors
- The State has the opportunity to drive savings through:
 - Consolidation of the supply base via a competitive event with the industry's leading vendors
 - Aggressive negotiations of mark-ups against standardized role descriptions

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
OSP TEMPORARY SOLUTIONS	10.40	29%	29%
SELECT STAFFING	2.33	7%	36%
Worldwide Travel Staffing, Ltd	2.10	6%	41%
QUALITY STAFFING SPECIALIST	1.70	5%	46%
WACHOVIA BANK	1.23	3%	50%
GREENE RESOURCES INCORPORATED	1.15	3%	53%
HIGHMARK COMPANIES	1.12	3%	56%
STAFF CARE, INC.	0.97	3%	59%
SHC Services, Inc.	0.89	2%	61%
Tracy Leland Gaskins III	0.83	2%	63%
Others (485)	13.11	37%	100%
Total	35.83	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$28.7	20
Last 20%:	\$7.1	475

Administrative Services Industry Trends & Observations

Industry Summary

Industry Trends:

- According to seasonally adjusted preliminary numbers by the U.S. Bureau of Labor Statistics, temporary help services added 40,000 jobs in November 2010. Temporary help employment has expanded by 494,000, since reaching a low in September 2009.
 - In comparison, the U.S. lost an average of 44,000 temporary jobs per month between January 2008 and July 2009

Key Industry Vendors:

- Adecco, Manpower, Vedlor, Randstad, Kelly Services

Observations

- The Performance Audit on the State Agency Use of Temporary Staffing Vendors (Jan. 2009) concluded that the State was paying too much for temporary staffing, specifically citing high administrative mark-up rates due to lack of competitive bidding.
- Agency spend with OSP on temporary services is over 4x the spend with the largest vendor in this category (Select Staffing)
- OSP Temporary Services provides support (not mandated) to agencies as they are able to fill the demand; outside vendors fill positions that are not staffed through OSP
 - HR serves as the contact to connect agencies with the temporary service providers
 - In advance or as part of the sourcing process, the State should consider if they want to continue to provide staffing services internally, or if they want this service to be provided entirely or in part by a third party
- Spend classified as 'Miscellaneous Services' will need deeper analysis during sourcing for potential additional addressable spend

Administrative Services Recommended Sourcing Approach

Recommended Sourcing Approach

- Establish contracts with preferred suppliers through a competitive process
 - Gather requirements for positions from all key stakeholder groups
 - Standardize roles across stakeholder groups
 - Provide clear role definitions to eliminate ambiguity in competitive process
 - Leverage industry benchmarks to aggressively negotiate mark-ups
 - Implement standard KPIs/SLAs to quantify performance for future contracting efforts / leverage

Additional Information

- Sample line item spend data includes temporary labor spend, much of it healthcare related. Many lines are missing line descriptions.
- Many DHHS lines are Health Services coded as Administrative Services: (e.g. \$1.7M with Worldwide Staffing for Temporary Nursing Staff)
- Other lines include Continuing Education for inmates, services for Japan office via Leland Gaskins (NC Investment Rep), OSP Temp Solutions for DENR and DOCC
- While no state contracts exist, open market bids are accessible through Openbook for Temporary Labor across entities
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$0.7M (2.0%)
- State term contracts identified for this category during analysis: N/A

Advertising and Marketing Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$39.3M
Total Spend – FY '10		\$42.9M
Est. Addressable Spend	60%	\$25.7M
Savings Opportunity	5% - 10%	\$1.3M – 2.6M
Estimated Sourcing Duration		8 Months

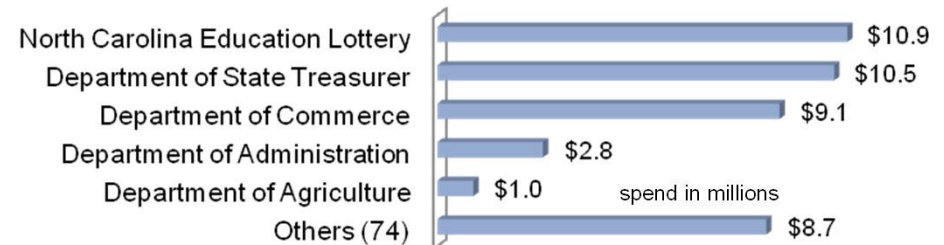
Opportunity Assessment

- The top 3 agencies account for 53% of the total spend in this category, and are each aligned to one of the top 3 vendors:
 - Capstrat – Department of State Treasurer
 - WWL Advertising LLC – NC Education Lottery
 - LKM – Department of Commerce
 - Note: the top 3 suppliers were the same in the FY'08-FY'09 data.
- Opportunities exist to achieve potential savings through:
 - Consolidation of supply base (967 total vendors)
 - Thorough evaluation of current suppliers to determine market competitiveness of hourly rates, media mark-ups and pass through rate structures
 - Establish contract pricing (no statewide contracts were found) with predetermined agency “rate cards”
 - Rationalize specifications/requirements
- Potential for additional savings through an agency review process that incorporates both compliance and media audits.

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
Capstrat	9.00	21%	21%
WWL Advertising LLC	7.25	17%	38%
LKM	6.70	16%	53%
Trone, Inc.	3.74	9%	62%
MarketSmart Advertising	1.94	5%	67%
NC Agency for Public Telecomm	1.13	3%	69%
The Bloom Agency	0.68	2%	71%
MDI Entertainment LLC	0.38	1%	72%
Curtis Media Group	0.33	1%	73%
TIME WARNER CABLE	0.32	1%	73%
Others (957)	11.44	27%	100%
Total	42.91	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$34.2	21
Last 20%:	\$8.6	946

Advertising and Marketing Industry Trends & Observations

Industry Summary

Industry Trends:

- Increase in the practice of un-bundling of media services
 - Split media planning and buying to take advantage of large buying holding agencies
- Incentive-based compensation has grown steadily over the past two decades, with the percentage of total advertisers using the model growing from 13% in 1991 to 40% in 2008
 - Most advertisers use a combination of both agency and company performance incentive criteria, with sales goals, agency performance and brand/ad awareness being the top three measurement criteria.
- Marketing spending is steadily increasing from traditional to digital media

(Source: Accenture Internal Research)

Key Industry Vendors:

- Universal McCann, Interpublic, Omnicom, Publicis, WPP

Observations

- Supply base is highly fragmented across the different media subcategories (967 total vendors)
 - Demand leverage is also diluted across the wide supply base, resulting in loss of potential savings
- Agency alignment to independent vendors suggests no overlap in agency campaigns (ie lack of leverage)
- The price and non-price related advantages of statewide contracts are not being realized
 - No statewide contracts have been found using publicly available resources
 - Many individual, agency-specific, one-time, single item contracts were identified
 - e.g. LC-61004, Advertising spend to Trone from NC State Lottery

Advertising and Marketing Recommended Sourcing Approach

Recommended Sourcing Approach

- Given the complex nature of Marketing/Advertising, the category should be divided into more manageable subcategories to allow for prioritization and to simplify further analysis. Each of the subcategories will have varying pricing, supply/demand and costs to operate. Typical subcategories and strategies listed below:
 - Media Planning and Buying
 - Audit price, position and placement to improve unit price (cpp, cpm)
 - Benchmarking agency fee schedule and agreements
 - Creative Agency
 - Analyze creative design projects, by complexity, negotiate rates by type
 - Restructure creative agency compensation to be tied to business performance
 - This subcategory requires additional sensitivity in the evaluation stage. Getting the message right is more important than the absolute lowest price.
 - Print and Paper
 - Restructure relationship and supply model – direct buy, index pricing for paper
- During bidding, require the vendors to provide a robust fact base of project level spending to help establish a controlled review process of agency charges; compliance with contractual terms and invoicing reconciliation
- Once contracts are in place, create policies and procedures to require executive approval which will help enforce buyer compliance

Additional Information

- Sample line item spend data includes Teen Tobacco Use Prevention media, agency fees, advertising services for various state agencies, promotional agreements.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$7.3M (17.0%)
- State term contracts identified for this category during analysis: N/A

Agricultural Equipment and Supplies Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$18.6M
Total Spend – FY '10		\$13.9M
Est. Addressable Spend	50%	\$7.0M
Savings Opportunity	8% - 12%	\$0.6M – 0.8M
Estimated Sourcing Duration		6 Months

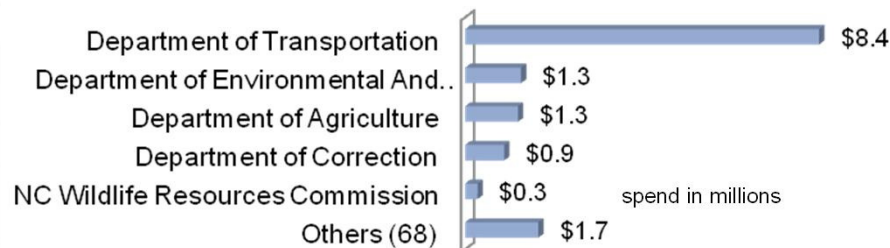
Opportunity Assessment

- The supply base is highly fragmented in this category
 - Top 80% is with 62 vendors
- Major subcategories include:
 - Fertilizers/Conditioners ~\$4.9M (35%)
 - Tractor/Mower ~\$4.2M (30%)
 - Nursery/Seed ~\$1.5M (11%)
- Department of Transportation contributes 60% of spend in the category
- Opportunities to drive savings through increased spend on contract
 - Minimum contract spend: \$2.6 (19%)
 - Leverage spending across agencies
 - Increase contract terms on current supplies under contract
 - Increase total items on contracts
- Conduct make/buy analysis to determine fit of contracted service business model for equipment
 - Include analysis of parts and maintenance in the TCO when evaluating purchases

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
Southern States Coop., INC	1.67	12%	12%
HELENA CHEMICAL COMPANY	1.05	8%	20%
cnh america llc	1.02	7%	27%
Quality Equipment LLC	0.60	4%	31%
Green Resource LLC	0.45	3%	34%
DIXIE LAWN SERVICE INC	0.37	3%	37%
Martin Marietta - Raleigh	0.34	2%	39%
MEHERRIN FERTILIZER INC	0.34	2%	42%
Linder Industrial Machinery Co	0.30	2%	44%
JOHN DEERE COMPANY	0.29	2%	46%
Others (703)	7.50	54%	100%
Total	13.92	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$11.1	62
Last 20%:	\$2.9	651

Agricultural Equipment and Supplies Industry Trends & Observations

Industry Summary

Industry Trends:

Agricultural Equipment

- Global demand for agricultural equipment driving U.S. pricing: exported industry products in 2008 made up ~40% of U.S. production (Source: Research and Markets Sept 2009)

Fertilizer

- Heavily driven by input commodity prices such as natural gas.
 - Abundant supply of natural gas drives low spot prices (source: www.eia.doe.gov)
- World fertilizer consumption is to grow annually at about 1.7 % from 2007/2008 to 2011/2012, equivalent to an increment of about 15 million tons. Approximately 69% of this growth will take place in Asia and 19% in America.
- North American Agrochemical market is forecast to accelerate, with an anticipated CAGR of 8.8% for the five-year period 2009-2014, which is expected to drive the market to a value of \$37.6 billion by the end of 2014

Key Industry Vendors:

- Agricultural Equipment: John Deere, Caterpillar, CNH
- Agricultural Supplies: Agrium Inc, CF Industries Holdings Inc, Terra Industries

Observations

- Agency contracts in place for mulch, straw, and seed at DOT
 - Additional seasonal bids for agricultural supplies take place twice per year, in Spring and Fall, for seeds, shrubs, bushes, etc.
- State Term Contracts exist for Agricultural Tractors, Utility Vehicles, Rotary Mowers (20A, 20C, 20D)

Agricultural Equipment and Supplies Recommended Sourcing Approach

Recommended Sourcing Approach

Equipment:

- Aggregate products and services into similar groupings
- Estimate optimal replacement cycle
- Develop specifications (dependent on present state of standardization)
- Cost optimal replacement & compare to present capital (lease) budget
- Segregate vehicle & equipment into commercial segments
- Conduct competitive event
- Monitor/review fleet utilization and establish metrics
- Depending on the subcategory grouping, purchase of the vehicle and parts/service can be negotiated at the same time
 - Over the life cycle of the equipment, non-warranty repairs can become costly. Regularly replaced/damaged items (windshields, mirrors, belts, hoses, etc) and services should be a part of the initial evaluations

Supplies:

- Include transportation, distribution and storage costs in the TCO analysis
- Aggregate supplies into the largest logical groupings that the market can provide through a single source
- Enter into contracts with vendors with pre-defined indexing mechanism to adjust for fluctuations, utilize hedging principals where appropriate

Additional Information

- Sample line item spend data includes tractors, mowing equipment, grass seed, mulch, grain straw, fertilizer.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$2.6M (18.5%)
- State term contracts identified for this category during analysis: 20A, 20C, 20D

Architecture and Engineering Services Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$68.9M
Total Spend – FY '10		\$46.9M
Est. Addressable Spend	60%	\$28.2M
Savings Opportunity	5% - 9%	\$1.4M – 2.5M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- Current market conditions are favorable to seek competitive pricing:
 - Intense market competition, strong buyer power, and weak demand
- Spend for Architecture and Engineering is fragmented
 - Top 80% of spend is with 50 vendors
 - 557 total vendors
- 59% of the category spend data is direct payments
- Engineering Services commands the majority of the spend at 63% (\$29.5M)
- Lack of spending with leading industry vendors indicates opportunity
- Aggregate A&E services (cross-agency and cross-functional) to achieve the highest value (high service levels at low cost) resulting in Master Service Agreements with preferred suppliers
 - Leverage the current market conditions to achieve lower labor rates, renegotiate pricing
 - Utilize e-Auctions during strategic sourcing process

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
THE FREELON GROUP INC	4.80	10%	10%
PEARCE BRINKLEY CEASE & LEE PA	2.50	5%	16%
O'BRIEN/ATKINS ASSOC PA	2.35	5%	21%
PERRY BARTSCH JR CONSTRUCTION	2.15	5%	25%
DAVID R POLSTON ARCHITECT	1.76	4%	29%
BJAC	1.68	4%	32%
SCHENKEL SHULTZ INCORPORATED	1.44	3%	36%
HEATON CONSTRUCTION	1.44	3%	39%
CAROLINA ENVIRONMENTAL CONTRACTING, INC.	1.15	2%	41%
DUDA PAINE ARCHITECHTS LLP	1.04	2%	43%
Others (547)	26.62	57%	100%
Total	46.93	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$37.5	50
Last 20%:	\$9.6	507

Architecture and Engineering Services Industry Trends & Observations

Industry Summary

Industry Trends:

- Architecture and Engineering services are part of a larger industry category , “Pre-Construction Services”, where similar sourcing strategies can be employed across Surveying, Due Diligence, Environment and Ecological Studies, and other Design-related activities.
- Intense competition between large supplier base of architects and engineers – indicates buyer opportunity to foster competition and renegotiate current contracts
 - Despite some large players, the engineering industry is highly fragmented: U.S. has ~40,000 non-residential construction and ~50,000 heavy construction/civil engineering companies
 - ~80% of companies have less than 20 employees (Source: Datamonitor)
 - 50 largest firms account for 35% of total industry revenue (Source: FirstResearch 2009)
 - Architecture industry is fragmented as well; the top 50 vendors make up less than 20% of the total revenue (Source: Hoovers)
- Strong buying power of government entities because industry demand for pre-construction services is highly driven by construction needs of large companies and governments
- High unemployment (9.1% in NC as of 10/2010), lower employment costs, and low demand for construction projects

Key Industry Vendors:

- Architecture: AECOM Technology, HDR, Heery International, Gensler, and HKS
- Engineering: Jacobs Engineering Group, URS Corp, Fluor, and Bechtel

Observations

- 59% of the category spend data is direct payments to vendors
 - During agency discussions, purchasing agents had difficulty verifying this spend due to lack of visibility
- \$20.3M (43%) falls under “Building Design Contracts” commodity code
- NC does not have significant spend with industry major vendors
- Professional Services Management within DOT Technical Services handles A&E services contracting
 - Further research required to determine whether term contracts are being utilized by DOT
- Further information required to:
 - Analyze procurement process – *existing requirements for vendors, qualification process, work forecasting, etc.*
 - Clarify estimated future spend on Engineering Services

Architecture and Engineering Services Recommended Sourcing Approach

Recommended Sourcing Approach

- A leading practice is to source pre-construction services at an aggregate level across the organization resulting in large multi-year agreements
 - Standardize job titles to create a standardized
 - Establish/re-negotiate rate cards with preferred supplier relationships
 - Standardize/rationalize specifications/requirements
- Proactive supplier management program is key success factor to maintaining the lowest total cost of ownership
 - Negotiate strong SLAs and penalties for non-performance

Additional Information

- Sample line item spend data includes project design fees, stream restoration, building renovations.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$1.2M (2.6%)
- State term contracts identified for this category during analysis: N/A

Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$136.4M
Total Spend – FY '10		\$113.7M
Est. Addressable Spend	65%	\$73.9M
Savings Opportunity	5% - 10%	\$3.7M – 7.4M
Estimated Sourcing Duration		8 Months

Opportunity Assessment

- DPI school bus spending accounts for 42% of the spend
 - Majority leased through Suntrust (36% of spend)
- Variety of fragmented dealer purchases in spend data
- Opportunity to achieve savings through strategic sourcing, demand management and improved purchasing practices:
 - Consolidate total forecasted spend for all vehicles and vehicle bodies into one bidding process
 - Rationalize models within a class and manage additional costs associated with additional options
 - Competitively bid directly with dealers, vehicle manufacturers, service body manufacturers and up-fitters for a multi-year deal for new fleet purchases
 - Monitor fleet utilization and establish metrics
- Evaluate use of fleet management firms to bundle with maintenance and repair practices and consolidation opportunities within repair, fuel and parts management, and vehicle consumable purchases for entire fleet
- Evaluate vehicle utilization for potential additional savings

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
SUNTRUST LEASING CORPORATION	40.51	36%	36%
DOA MOTOR FLEET MANAGEMENT	30.15	27%	62%
BOBBY MURRAY CHEV INC & GMAC	6.74	6%	68%
ILDERTON DODGE CHRY JEEP	6.31	6%	74%
Transource, Inc.	6.28	6%	79%
PIEDMONT FORD TRUCK SALES INC.	4.70	4%	83%
BANC OF AMERICA PUBLIC	3.11	3%	86%
CAPITAL FORD -Car & Truck Sale	3.06	3%	89%
VIC BAILEY FORD INC	2.95	3%	91%
Whites International Trucks	1.23	1%	92%
Others (243)	8.67	8%	100%
Total	113.73	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$94.7	6
Last 20%:	\$19.0	247

Industry Trends & Observations

Industry Summary

Industry Trends:

- For October 2010, US car sales are up 5.3% from YTD 2009. (source: Wall Street Journal, December 2010)
- Two of the three US OEMs have filed for bankruptcy protection and utilized Government bailout financing for sustainability
- New foreign manufacturers continue to enter the US Market (e.g.: Mahindra)
- Foreign manufacturers typically do not play significantly in the fleet market – Especially work type vehicles.
- Fleet sales make up 15% to 25% of motor company business (includes rental fleets)
- The number of dealers to support the major 3 (Chrysler, GM & Ford) is decreasing.

Observations

- Fleet vehicles are purchased through Motor Fleet Management from term contracts
 - Vehicles are aggregated annually and purchased from local dealerships
- Term contracts:
 - 070A – 070N Various vehicles
 - 556A – Transit Buses
- Openbook bids frequently relate to state term contract spend (e.g. 200900867 [Passenger vehicles])
- High percentage of spend (58%) is direct pay, thus providing insufficient line item detail
- Vehicle upfitting products are contracted separately (e.g. - truck bodies, dump truck bodies, fuel tank bodies)
- Further analysis needed to clarify the split between automotive fleet, industrial equipment, and agricultural equipment purchases
- DOC leases automobiles from DOA Motor Fleet and buys light trucks, buses off of statewide term contract
- Motor Fleet Management maintains a revolving equipment account to replace end-of-life equipment as needed

Recommended Sourcing Approach

Recommended Sourcing Approach

- Aggregate products into similar groupings
 - Motor company products – Light, medium & heavy duty vehicles
 - Upfitting products – Service bodies, hydraulic equipment, light duty accessories
 - Trailers – Powered and non-powered
 - Utility & Construction equipment – Loader/backhoes, trenchers, etc.
- Estimate optimal replacement cycle
- Develop specifications (dependent on present state of standardization)
- Cost optimal replacement & compare to present capital (lease) budget
- Segregate vehicle & equipment into commercial segments
- Conduct competitive event
- Monitor/review fleet utilization and establish metrics
- Depending on the subcategory grouping, purchase of the vehicle and parts/service can be negotiated at the same time (Upfitting and Construction Equipment are good examples)

Additional Information

- Sample line item spend data includes school buses, Law Enforcement Vehicles, 15 passenger vans, blanket POs for Dump Trucks, asphalt pavers.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$25.3M (22.3%)
- State term contracts identified for this category during analysis: 070A – 070N, 556A

Auto Service and Parts Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$28.6M
Total Spend – FY '10		\$46.2M
Est. Addressable Spend	45%	\$20.8M
Savings Opportunity	4% - 12%	\$0.8M – 2.5M
Estimated Sourcing Duration		8 Months

Opportunity Assessment

- The supply base is highly fragmented for this category with 3,426 vendors included in the spend data
- P-card spend is \$1.8M (4% of total spend)
- Corrections Enterprises accounts for 36% of the spend for the category for services (provides motor oils, greases, etc)
- Opportunities exist to reduce costs by consolidating the supply base
 - Establish preferred vendors based using a competitive event
 - Evaluating fleet management vendors that provide capabilities to manage parts and services for the full variety of vehicles in fleet
- High number of entities involved in category purchases indicate opportunity for centralization of control and management
- Large number of contracts also indicate an opportunity to consolidate and utilize vendors with broad capabilities

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
NC Department of Correction	16.27	36%	36%
Navistar, Inc.	1.82	4%	39%
BANK OF AMERICA	1.80	4%	43%
BLACKS TIRE SERVICE INC	1.52	3%	47%
ROB'S HYDRAULICS	1.51	3%	50%
GODWIN MFG CO INC	1.33	3%	53%
CAROLINA RIM & WHEEL INC	0.81	2%	55%
VIC BAILEY FORD INC	0.76	2%	56%
Brenntag Southeast Inc.	0.67	1%	58%
Central Service & Supply, Inc.	0.55	1%	59%
Others (3416)	19.13	41%	100%
Total	46.17	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$36.7	73
Last 20%:	\$9.5	3353

Auto Service and Parts Industry Trends & Observations

Industry Summary

Industry Trends:

- Current decline in automotive industry has caused OEMs to extend warranty coverage and offer free service
- Due to the excess manufacturing and labor capacity in the industry, now is good time to renegotiate current service part contracts and enter into fixed-pricing long term contracts
 - Aftermarket part vendors are likely to be running at 50% to 60% of capacity in 2009 (Source: US Dept of Commerce Apr 2009)
- In the long run, automotive parts industry directly linked to demand for new vehicles
 - 70% of all US Automotive parts production is for OEM products (Source: US Dept. of Commerce Apr 2009)
- Increasing amount of manufacturing of components is moving to Asia

Key Industry Vendors:

- Major chain vendors for service and parts: Firestone, Jiffy Lube, Meineke, Pep Boys, Goodyear Tire and Service
- Major leasing companies include ARI, PHH, LeasePlan and GE Capital (top 4 by number of vehicles under management)
 - Provide asset management, maintenance, service, risk management, and a variety of vehicle services

Observations

- State owned garages for service include highway patrol, DOT, and Motor Fleet Management; outside of this network:
 - Approved service stations around the state to provide parts and service; not selected through a competitive process
- Spend data reflects pricing variation for the same services with the same supplier
 - E.g. DOC bought Shell Donax TD 10W30--55/gal drums from SOPUS Products for \$4.34 and \$6.11 within one month
- Term Contracts:
 - 060A: Automotive, Industrial Parts and Supplies
 - 060C: Filters, Oil and Air, Automotive
 - 065A-C: Truck Bodies
- DOT purchases all motor oil and greases from DOC
 - Possible double-counting of spend with Fuels category
- DOT utilizes the term contracts set up by P&C where needed items are available on contract
- Significant P-card spend (4%) on replacement parts and repairs indicates opportunity to increase contract spend
 - Individual line item purchases are significant; 38 line items over \$10k

Auto Service and Parts Recommended Sourcing Approach

Recommended Sourcing Approach

- Industry leading practices are split between two models:
 - Vendor provides fleet management for entire fleet , or
- Consolidate and breakdown services into subcategories to source independently:
 - Preventive Maintenance/Repair
 - Chains: Firestone, Meineke, Goodyear, and Fleet Pride
 - Auto Body Work
 - Local chains or shop: Autobody Pro
 - Glass Repair and Replacement
 - Large national chains or local: Glass Master, SafetyLite
 - Interior/Exterior Cleaning
 - Local, family owned
 - Towing
 - Local, family owned
 - Could be subcontracted from large shop

Additional Information

- Sample line item spend data includes Internal Release Orders for Oil, Fluids, dump truck bodies, "Confirming Orders" for truck bodies, forklifts.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$22.7M (49.2%)
- State term contracts identified for this category during analysis: 060A, 060C, 065A-C

Cleaning Supplies and Equipment Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$9.6M
Total Spend – FY '10		\$10.3M
Est. Addressable Spend	50%	\$5.1M
Savings Opportunity	10% - 20%	\$0.5M – 1.0M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- High degree of vendor fragmentation: 794 total vendors; 80% of spend is with 33 vendors
- Agency spending with Corrections Enterprises accounts for 39% of the total spend in the category
 - Providing cleaners, disinfectants, detergents, etc
- NC does not appear to have significant spend with industry's major players
- Current analysis indicates a minimum contract spend identified: \$1.7M (17%)
- Opportunity to drive savings through supply base and product SKU rationalization:
 - Reduce total number of term contracts to increase spend volume and discounts with contracted vendors
 - Volume could be leveraged to a single cleaning supplies and equipment distributor, maximizing the state's buying power
- Use TCO analysis to determine if supplies and services should be sourced together or separately

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
NC Department of Correction	4.05	39%	39%
NEWELL & SONS INC	0.63	6%	45%
ANDERSON SANITARY MAINTENANCE	0.40	4%	49%
INTERTECH CORPORATION	0.37	4%	53%
BANK OF AMERICA	0.35	3%	56%
SAFFELLE, INC.	0.21	2%	58%
W W GRAINGER INC	0.21	2%	60%
UNISOURCE INC	0.19	2%	62%
BRAME SPECIALTY COMPANY, INC.	0.14	1%	64%
CCP Industries	0.14	1%	65%
Others (784)	3.60	35%	100%
Total	10.28	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$8.2	33
Last 20%:	\$2.1	761

Cleaning Supplies and Equipment Industry Trends & Observations

Industry Summary

Industry Trends:

- Relatively mature and steady growth market w/lack of product differentiation and low switching costs for buyers
 - Opportunity for buyers to capitalize on intense price competition between vendors
- Distributors of cleaning supplies and equipment are gaining market share:
 - While 45 percent of distributors say they expect their companies to recover this year, 31 percent of survey respondents say recovery will not start until 2011. Another 6 percent do not expect a rebound until 2012 or beyond. (Source: Sanitary Maintenance Oct 10)
 - Note: Distributors sales fell 6.6% from 2006 to 2008 (Source: Sanitary Maintenance Magazine, ISSA Report 2009)
 - Recent weak performance translates to increased buyer power and may correlate to potential decline in prices

Key Industry Vendors:

- Unisource, Katy Industries, Newell Rubbermaid, Johnson Diversity, Ecolab, XPEDX

Observations

- Supply base and product SKUs are highly fragmented
 - Top 80% of spend: 33 out of 794 vendors
 - Demand is also distributed across smaller, more specific contracts/vendors
- Term Contracts:
 - 475E: Hand & Aerosol Sanitizers
 - 485C: Mats and Matting (Door, Carpet, Etc.)
 - 485D, G: Polishes, Floor, and Maintenance Materials, Brooms, Mops, Brushes, Other Cleaning Implements
 - 365A, B: Floor Maintenance Machines, Vacuum Cleaners
- Statute 148-134 requires agencies to purchase from Corrections Enterprises “unless the prison product does not meet the standard specifications and the reasonable requirements”
 - Contracts CE101-120 cover all Correction Enterprise Goods, Janitorial Supplies are specific to CE112
- DOC buys cleaning items for Correction Enterprises (e.g., bulk chemicals) and cleaning items from Correction Enterprises (e.g., ready to use cleaning products in smaller containers)
- Further clarification required regarding transactions involving the Department of Corrections

Cleaning Supplies and Equipment Recommended Sourcing Approach

Recommended Sourcing Approach

- Consolidate supply base to single channel for purchasing supplies to increase volumes and associated discounts
- Additional savings available through demand management activities:
 - Standardize product specifications
 - Rationalize SKUs
- Optional models for purchasing supplies include:
 - Include supplies in the sourcing of Janitorial Services, negotiating the supplies price to be included in with the services.
 - Source supplies independently of services, sourcing to a single distributor that can support the full range of NC's cleaning product needs.
 - Final strategy should be supported operationally by ensuring that the category is competitively bid as a regular part of the strategic sourcing plan
- Further TCO analysis needed to confirm best strategy for NC going forward

Additional Information

- Sample line item spend data includes multipurpose cleaner, floor wax, detergent, hand soap, soap bars, mop buckets, pot and pan detergent.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$1.8M (17.3%)
- State term contracts identified for this category during analysis: 475E, 485C, 485D, 485G, 365A, 365B

Construction and Building Management Services Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$255.8M
Total Spend – FY '10		\$305.5M
Est. Addressable Spend	15%	\$45.8M
Savings Opportunity	5% - 15%	\$2.3M – 6.9M
Estimated Sourcing Duration		12 Months

Opportunity Assessment

- Addressable spend in this category is calculated to target only spending with Building Management Services vendors
 - Construction spending estimated at \$250M
 - All sourcing analysis contained on subsequent slides excludes Construction Management Services vendors
- No term contracts found for Building Management Services
- Vendors frequently providing services at individual locations and are not on contract
- Opportunity exists to lower building management costs
 - Segment services by type
 - Structure competitive event to allow for multiple properties to be awarded to a single vendor (regionalization model)
 - Establish long-term agreements with vendors
- Evaluate use of integrated vendor managed facility services
- Further spend analysis necessary to determine the actual split of spend between Construction Services and Building Management Services

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
BALFOUR BEATTY CONSTRUCTION	50.99	17%	17%
CLANCY AND THEYS CONSTRUCTION	29.61	10%	26%
SHELCO	16.89	6%	32%
BARNHILL CENTEX JOINT VENTURE	14.75	5%	37%
NEW ATLANTIC CONTRACTING	11.79	4%	41%
Samet Corporation/SRS Inc	9.48	3%	44%
Monteith Construction Corp.	8.78	3%	47%
HENDRICK CONSTRUCTION	6.71	2%	49%
Perkins Eastman	5.83	2%	51%
RESOLUTE Building Co.	4.56	1%	52%
Others (4256)	146.12	48%	100%
Total	305.51	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$243.2	89
Last 20%:	\$62.3	4177

Construction and Building Management Services Industry Trends & Observations

Industry Summary

Industry Trends:

- Leading industry practices include the utilization of vendor managed facility services. Vendors capable of providing multiple services facilitate all service aspects of facility management including maintenance, repair, cleaning, security, and landscaping
- Vendors have effectively been able to lower their costs through IT and software utilization to optimize facility management services
- Facility investment and facility operating costs typical accounts for more than 30% of a firm's total cost
- Best in class companies also focus on cost reduction through energy conservation, while maintaining the balance between flexibility and costs

Key Industry Vendors:

- CB Richard Ellis Group, Jones Lang LaSalle Inc, and Cushman & Wakefield, Inc

Observations

- Vendors are being engaged on services on an ad-hoc basis with no long term contracts in place
- New Building Management Services vendors seem to be sourced and engaged for specific services without evaluation of previously utilized vendors in category
- Few top vendors are the same between this category and Construction Services category. Utilize aggregated spend in negotiations with vendors to leverage buying power
 - Clearly segment spend between construction projects and maintenance/repair
- Many services are contracted to individual buildings and are not leveraged across the state's full footprint
- Many janitorial services contracts are operating on a month-to-month basis

Construction and Building Management Services Recommended Sourcing Approach

Recommended Sourcing Approach

Sourcing strategies for Building Management Services vary depending on the procurement model selected:

- Internally managed programs should segment services and conduct sourcing activities at the sub-category level
 - Identify suppliers capable of serving multiple (or all) locations
 - Standardize specifications, allowing minimal exceptions outside of the facility/building type
 - Example: Janitorial Services – Standardize the ‘definition of clean’ across multiple locations; exceptions would be reserved for buildings with unique features (high rise window cleaning, large square footage floor waxing, etc)
 - Structure RFP to allow for single or multi-regional award to individual vendors
 - Leverage fact based negotiations to finalize pricing with vendors
- Contract with vendors capable of integrated facility management
 - Consolidation of demand, services, and vendors
 - Utilize TCO model to identify cost and value drivers
 - Establish performance specifications and standardize service levels
 - Negotiated volume discounts to obtain best pricing

Additional Information

- Sample line item spend data includes house keeping services, janitorial contracts, private maintenance services, elevator services, landscaping services, HVAC services, and waste services.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$9.4M (3.1%)
- State term contracts identified for this category during analysis: N/A

Drugs and Pharmaceuticals Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$73.0M
Total Spend – FY '10		\$54.1M
Est. Addressable Spend	40%	\$21.7M
Savings Opportunity	2% - 8%	\$0.4M – 1.7M
Estimated Sourcing Duration		6 Months

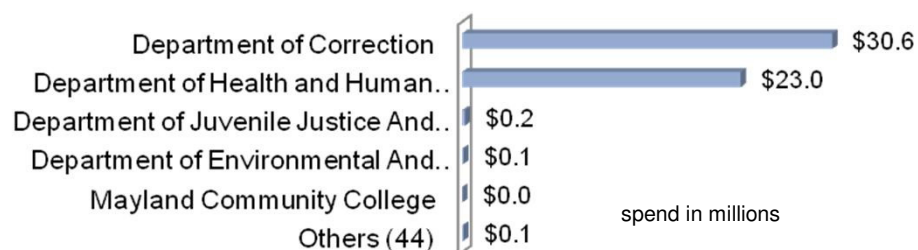
Opportunity Assessment

- Top 80% of the spend is consolidated, however the remaining 20% is highly fragmented
 - Two vendors account for over 80% of the spend
 - 300 total vendors
- Currently utilizing consortium pricing through both MMCAP and Novation
- Opportunity to produce additional savings in the category through:
 - Conducting a detailed comparison between current pricing from pharmaceutical contracts, including prices and distribution services
- Optimize order size to maximize any potential manufacturers and distributor's rebate triggers while minimizing inventory and supply chain costs

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
Cardinal Health Pharmaceutical	36.59	68%	68%
AMERISOURCEBERGEN	9.61	18%	85%
Merck & Co., Inc.	4.57	8%	94%
Ross Products Division	0.75	1%	95%
ANDA INC.	0.38	1%	96%
OMNICARE OF HICKORY	0.30	1%	96%
BANK OF AMERICA	0.22	0%	97%
ASD Healthcare	0.20	0%	97%
NESTLE CLINICAL NUTRITION	0.19	0%	98%
Edwards Medical Supply, Inc.	0.10	0%	98%
Others (290)	1.24	2%	100%
Total	54.14	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$46.2	2
Last 20%:	\$7.9	298

Drugs and Pharmaceuticals Industry Trends & Observations

Industry Summary

Industry Trends:

- Global Pharmaceuticals industry has exhibited strong growth historically and is forecasted to continue growth (Source: Datamonitor)
 - The compound annual growth rate of the market in the period 2006-10 was 4.8%.
 - The global pharmaceuticals market grew by 4.3% in 2010 to reach a value of \$693 billion
 - Industry has a high level of competition with high barriers to entry including costs, regulations, expertise, brand, and switching costs

Key Industry Vendors:

- AmerisourceBergen Corporation, McKesson Corporation, Cardinal Health

Observations

- Minimal use of direct pay with only 1.5% of category spend being paid directly
- Critical to maintain cost effectiveness through contract compliance and monitoring any increase in direct pay purchases
- Department of Corrections has more spend in this category than all other entities (including hospitals) combined
- Significant percentage of spend (minimum of 87%) is based off of established contracts
- Term contracts:
 - 269A – Drugs and Medicines - governs MMCAP spend through Cardinal (distributor)
 - 271A – 271E Various Pharmaceuticals
- DHHS leveraging AmerisourceBergen as their distributor for the contract with Novation GPO
 - Cardinal is also a distributor on the Novation contract, but AmerisourceBergen was selected because they offered additional value-add services that were not available through Cardinal.
 - Example: AmerisourceBergen provides reports to DHHS' Chief Pharmacist offering generic options to replace brand name items
- Confidentiality of pricing for both MMCAP and Novation prevent pricing from being published in an e-Procurement catalog

Drugs and Pharmaceuticals Recommended Sourcing Approach

Recommended Sourcing Approach

- Aggregate total volume across all programs to assess full leverage potential
- Competitive negotiations with top vendors could reduce costs and optimize service levels
 - Consortia pricing should be validated periodically through competitive events with the top vendors
 - Baseline industry costs in reference to current pricing
- Profile manufacturers and distributors to understand rebate triggers and levels
- Create a Medication Utilization Management Initiative (MUMI) to review product formulary and develop criteria to prescribe the most cost effective products, dosage, and administration route to achieve quality outcomes
- Develop and enforce formulary guidelines
 - Utilize generic drugs when available

Additional Information

- Sample line item spend data includes open PO for drugs for prison facilities, vaccinations on CDC contracts, blanket POs for drugs purchases from pharmaceutical companies off of established contracts.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$46.9M (86.6%)
- State term contracts identified for this category during analysis: 269A, 271A - 271E

Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$51.6M
Total Spend – FY '10		\$54.1M
Est. Addressable Spend	70%	\$37.8M
Savings Opportunity	8% - 15%	\$3.0M – 5.7M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- Spend is highly concentrated within DOC(69%) and DHHS(19%), though no centralized purchasing strategy exists for the category
 - Agencies operate independent of one another
 - Individual items are regularly bid
 - Few long-term contracts are in place
 - The resulting supply base is fragmented, with 35 (6%) vendors accounting for 80% of the spend and a total of 586 total vendors; no vendor has more than 12% of spend.
- Opportunities exist to reduce costs by leveraging cross-agency demand and ultimately consolidating the supply base through a competitive event
 - Establish a cross-agency team to review current purchases and create new list of rationalized SKUs
 - Utilize a single large distributor with fixed pricing for all non-perishable food items
 - Contract directly with manufacturers for all perishable items and utilize market indices

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
US FOODSERVICE	6.74	12%	12%
NC Department of Correction	5.03	9%	22%
Advanced Commodities/DBA MQF	2.37	4%	26%
PET DAIRY	2.16	4%	30%
MARCUS FOOD COMPANY	1.82	3%	34%
H SCHRIER & CO INC	1.61	3%	36%
NC STATE UNIVERSITY	1.58	3%	39%
FRANKLIN BAKING COMPANY	1.52	3%	42%
Sonstegard Foods Company	1.35	2%	45%
OLD MANSION INC	1.31	2%	47%
Others (576)	28.57	53%	100%
Total	54.06	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$43.2	35
Last 20%:	\$10.9	551

Industry Trends & Observations

Industry Summary

Industry Trends:

- Industry growth has created distributors capable of meeting a majority of customers' needs
- US food industry has exhibited strong growth, but growth is predicted to slow (Source: Datamonitor)
 - CAGR from 2004 to 2008 of 5.8%
 - 2008 growth of 4.7%
 - 2.7% CAGR expected through 2013
- Industry is consolidated, with the 50 largest companies account for about 90 percent of revenue.

Key Industry Vendors :

- ARAMARK, Compass Group USA, Delaware North, US FoodService, Sysco, and Sodexo, Inc

Observations

- Vendors are being engaged for services on an ad-hoc basis with few long term contracts in place
 - Term Contracts exist for Breakfast Cereal, Snack Foods (393A, B)
- High volume of entity bids that are specific to certain items
- There are several indicators of opportunity when reviewing line-item PO detail:
 - DHHS paid \$14.37 for Blueberry Nutrigrain bars cases from Kellogg's, \$18.07 from US Foodservice for identical item
 - DHHS paid \$30.99 for RAISIN BRAN, INDIV SELF-SERVE BOWLS, 96/CS from Sysco, \$21.47 from Kellogg's
 - DOC paid \$5.64 per 50-lb bag of Potatoes from Dave Ludlum Produce, and \$6.25 per bag from Staunton between Aug-Sept 2009. (10% difference, \$10,000 POs)
- DOC can buy perishable food items of any value without P&C review / approval required (e.g., unlimited delegation in this category). They get three quotes and award to lowest bid that meets specifications.
 - Most NC Department of Correction Food items are used by DOC, some by DHHS. Lines include green beans, sweet tea, orange juice, fruit punch, packaged meat, and frozen eggs.
- DHHS Institutions are utilizing Novation GPO for supplies, but DHHS and DOC are prevented from doing so by P&C ruling on statute.
 - Novation is contracted directly with US FoodService as a distributor

Recommended Sourcing Approach

Recommended Sourcing Approach

- Non-Perishables
 - Industry leading practices include the utilization of a single vendor for all non-perishables and for items that are purchased at regular intervals in large quantities.
 - Issue a Food RFP to distributors to drive discounts on product and delivery costs as compared to current contracts target a single contract award, with provisions for local distributors as necessary.
 - Negotiate fixed pricing with long term contracts.
- Perishables
 - Industry leading practice is to contract directly with manufacturers.
 - Tie perishable purchases to published indices and purchase in-line with peak seasons (as applicable).
- Establish cross-agency team to determine standards and outline specifications.
- Consolidate brand and SKU options where applicable.
- Develop a formal supplier management program that evaluates vendors on a consistent basis to ensure quality of products, correct pricing and rebates, and acceptable customer service levels.
- Work with agencies to limit quantity of inventory held on-hand, revise ordering procedures to work on a more frequent ordering cycle.

Additional Information

- DOC buys food items for Correction Enterprises (e.g., bulk, concentrated orange juice) and food items from Correction Enterprises (e.g., ready to drink orange juice in 1 gallon bottles)
- DOC buys from producers, manufacturers and brokers (e.g., H Schrier for frozen eggs), often in truck loads to get volume discounts.
- DOC Purchasing utilizes price indices where appropriate to monitor pricing (e.g., meats, cheese)
- Items are shipped to a DOC run central warehouse and then distributed to the 78 correctional institutions as needed.
- DOC uses US Foodservice to supply their test kitchen. They reported that in the past, buying in bulk from manufacturers and brokers provides them with lower prices that are provided by distributors like US Foodservice and SYSCO.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$13.1M (24.3%)
- State term contracts identified for this category during analysis: 393A, 393B

Freight and Freight Supplies Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$33.5M
Total Spend – FY '10		\$22.1M
Est. Addressable Spend	50%	\$11.0M
Savings Opportunity	5% - 10%	\$0.6M – 1.1M
Estimated Sourcing Duration		5 Months

Opportunity Assessment

- The supply base is highly fragmented for this category with a total of 3,172 vendors in the spend data
- \$2.3M (10%) of spend for postage is currently determined as not addressable
- Express shipping and messenger/courier services are commodities; therefore, the primary differentiator between vendors is price
- Opportunities exist to consolidate the supply base reducing costs and improving service levels
 - Consolidation of volumes across entities and vendors will provide leverage to negotiate better pricing
- Further analysis required to evaluate current USPS rates and compare to potential volume savings

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
US POSTMASTER	8.39	38%	38%
PITNEY BOWES POSTAGE BY PHONE	2.63	12%	50%
NEOPOST INCORPORATED	2.20	10%	60%
DOA COURIER SERVICES	1.34	6%	66%
UNITED PARCEL SERVICE	0.77	3%	69%
CES MAIL COMMUNICATIONS, INC.	0.72	3%	73%
CAPS10435 USPS	0.60	3%	75%
FED EX	0.50	2%	78%
RESERVE ACCOUNT	0.34	2%	79%
US FOODSERVICE	0.34	2%	81%
Others (3162)	4.27	19%	100%
Total	22.09	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$17.8	10
Last 20%:	\$4.3	3162

Freight and Freight Supplies Industry Trends & Observations

Industry Summary

Industry Trends:

- Industry is fragmented with the 50 largest companies accounting for 45% of the industry revenue (Source: Hoovers).
- Rising fuel prices and increasing environmental regulations are causing many small vendors to exit the highly fragmented market
- Continued reductions in carrier capacity will create a significant imbalance as the economy recovers and demand increases.
- DHL departure from US parcel space has created more pricing power for UPS and FedEx.
- Industry highly correlated with population and economic activity growth and significant deceleration is expected between 2009 and 2013 with a CAGR of 0.1% (Source: Datamonitor)
- Even with current slowdown in economy long-term growth trend for freight transportation is positive and is expected to continue to grow between 3.1% and 3.5% until 2035 (Source: Datamonitor)
- Decline of mail volume resulting from digitalization and competition is driving diversification and innovation

Key Industry Vendors :

- UPS, FedEx, DHL, Emery Worldwide, USPS

Observations

- Purchases are likely completed as spot buys on an as-needed basis
 - No term contracts exist
- Express shipping supply base is fairly concentrated with a few global vendors
- Messenger/courier services supply base is not concentrated, with no global, few national, and many regional/local vendors that are not highly sophisticated
- Postage, bulk mail, and mail pre-sorting services are a logical category extension
- In advance or as part of the sourcing process, the State should consider if they want to continue to provide mail services internally, or if they want this service to be provided entirely or in part by a third party

Freight and Freight Supplies Recommended Sourcing Approach

Recommended Sourcing Approach

- Utilize TCO model to factor in extra fees, weight, delivery times, mailroom staff, software requirements, and other critical factors
- Evaluate opportunities for demand management
 - Consider rationalizing delivery times to reduce premium shipment costs
 - Evaluate type of service (AM vs. PM) for express shipments
- Consolidate all freight services purchases and leverage total purchases to negotiate and set-up contract(s) with large national vendors for express shipping and potentially local vendors for messenger/carrier service
 - Ensure all accounts are linked to master agreement to take full advantage of negotiated rates
 - Leverage available expertise of overnight shipping benchmark pricing and negotiations
 - Standardize and simplify administrative functions and procedures, i.e., contracts, rates and tariffs, rules and accessorial, freight bill audit and payment
 - Enhance service, i.e., guarantee capacity, reduce lead times, improve visibility, manage and monitor carrier performance
- Monitor compliance to contracts to ensure freight is associated to the correct carriers

Additional Information

- Sample line item spend data includes postage fees, several lines under "PITNEY BOWES ACCOUNT # 32698821".
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$0.7M (3.3%)
- State term contracts identified for this category during analysis: N/A

Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$250.1M
Total Spend – FY '10		\$61.6M
Est. Addressable Spend	70%	\$43.1M
Savings Opportunity	2% - 4%	\$0.9M – 1.7M
Estimated Sourcing Duration		6 Months

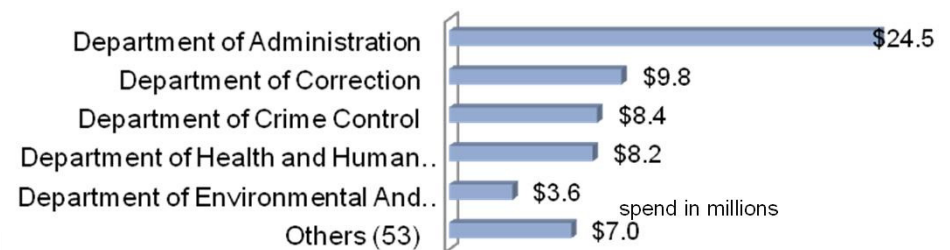
Opportunity Assessment

- This category is comprised of spending from two categories in the December 2009 Assessment
 - Gasoline and Gasohol; Fuel Oil and Diesel
- Evaluate utilizing a total cost of ownership model to identify all costs associated with category (storage, delivery, market fluctuations, logistics, etc)
- The supply base is reasonably consolidated for this category
 - Nine (3%) vendors account for 80% of the spend
 - 305 total vendors
- State term fuel card contract was awarded to three vendors with a rebate of 0.5%
- Incremental opportunities exist to improve leverage by further consolidating the supply base and by exploring interests in other petro-chemical category spend with key incumbents
 - Considering the State's volume, fuel card rebates should be at least 1.5%
- Re-evaluate NC's model for storage and distribution of fuels

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
WRIGHT EXPRESS	10.80	18%	18%
SAMPSON BLADEN OIL INC.	9.22	15%	33%
NC DEPT OF TRANSPORTATION	7.11	12%	44%
PIEDMONT NATURAL GAS	6.80	11%	55%
MANSFIELD OIL CO	4.16	7%	62%
Hess Corporation	3.66	6%	68%
PSNC ENERGY	3.43	6%	73%
TEXICAN HORIZON ENERGY	2.50	4%	77%
PETROLEUM TRADERS CORPORATION	1.89	3%	81%
GOGAS UNIVERSAL	1.12	2%	82%
Others (295)	10.88	18%	100%
Total	61.58	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$49.6	9
Last 20%:	\$12.0	296

Industry Trends & Observations

Industry Summary

Industry Trends:

- Global Oil and Gas Industry is highly volatile
 - 2009 negative growth of -1.61%(Source: Datamonitor)
 - 2010 growth of 1.47%
- Large increase in prices in 2008 has initiated a focus on alternative fuels and “green technology”
- Regulations, strong and large existing competitors, and high investment costs prevent new entrants into the market
- Market prices and demand fluctuate greatly and supply is highly controlled by OPEC and national governments
- Gasohol is a mixture of Gasoline and Ethanol, (i.e. - E10 = 10% ethanol and 90% gasoline, E85 = 85% ethanol and 15% gasoline)
- US production of biofuels is expected to grow from less than 0.5 million barrels per day in 2007 to 2.3 million barrels per day by 2030 (Source: Energy Information Administration)
- Ethanol production represents the largest growth in biofuels
 - 0.8 million barrels per day in 2007 to 1.1 million barrels per day predicted in 2030 (Source: Energy Information Administration)

Observations

- 17 term contracts found
 - 405A-X: Propane, Gasoline, Gasohol, Oils, Natural Gas, Diesel, Transport, Fuel Card
- Line item detail is insufficient to determine price per gallon paid. Further analysis required to evaluate price per gallon paid vs. market prices/index prices
- Three vendors currently on the fuel card contract (405g): Comdata, Go-Gas (Voyager), and Wright Express
 - Wright Express and Voyager are the top vendors in the fuel card market
 - The State's volume split between Go-Gas and Wright Express
 - Comdata is not providing service at this time
 - Motor Fleet Management is currently leveraging Wright Data for fuel cards, but is evaluating Go-Gas for enhanced reporting capabilities
 - Fuel cards are managed by the individual agencies
 - Variety in fuel card allocation and management results in varying reporting abilities
- DHHS and Motor Fleet have fuel storage tanks on-site

Recommended Sourcing Approach

Recommended Sourcing Approach

Fuel sourcing strategies are heavily dependent on the current purchasing and distribution models; final sourcing strategies can include any or all of the following sub-strategies:

- Wholesale Margin
 - Leverage volume across all locations to reduce supplier margin & standardize prices
 - Enter into annual rate contracts with vendors with pre-defined indexing mechanism to adjust for fluctuations, utilize hedging principals where appropriate
 - Explore Early Payment (or prepayment) Discounts options
 - Negotiate with vendors to pass on rebates availed by them, if any
- Storage
 - Outsource facilities management
 - Vendor managed inventory (VMI)
- Inventory Management and Dispensing
 - Implement a Fuel Management System (FMS) to measure, analyze, & control consumption & detect variances through leakages (ensure all North Carolina Environmental standards are being met)
 - Monitoring fuel inventory from delivery to dispensing , will allow operations to reconcile fuel inventories & set platform for fuel efficiency benchmarking and improvement
 - Environmental stewardship dictates management of fuel inventories.
- Logistics
 - Select distributors with a regional network which has an optimal proximity to delivery locations
 - Increase receipt of fuel delivery to site windows
 - Increase size of loads delivered to site
 - Reduce dispensing / waiting time of deliveries
- Consider utilizing billing audit services to validate invoices
- Consider all technologies to manage fuel and transaction details

Additional Information

- Sample line item spend data includes gasoline expenses on Wright Express Card, blanket orders for gasoline / gasohol purchases, dyed ultra low sulfur diesel purchases.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$32.1M (52.2%)
- State term contracts identified for this category during analysis: 405A-X

Furniture and Fixtures Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$23.3M
Total Spend – FY '10		\$19.6M
Est. Addressable Spend	60%	\$11.8M
Savings Opportunity	5% - 10%	\$0.6M - 1.2M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- The supply base is highly fragmented for this category
 - 422 total vendors, with no single vendor accounting for more than 20% of the spend
- 10% of the spend is with Corrections Enterprises
- Opportunities exist to consolidate the supply base reducing costs and improving service levels
 - Negotiate pricing agreements that take advantage of the consolidated volume
 - Centralize purchasing activity to reduce inventory and manage demand across entities
- Standardize furniture specifications
 - Develop core catalog that rationalizes like items
 - Simplify commodity management and improve order cycle times
- Research process improvements
 - Reduce inventory levels & holding costs
 - Perform lease vs. buy analysis
 - Investigate eAuction opportunity

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
KRUEGER INTERNATIONAL, INC.	3.97	20%	20%
INTERIOR SYSTEMS, INC.	2.32	12%	32%
NC Department of Correction	1.97	10%	42%
Institutional Interiors Inc	1.57	8%	50%
LEARNING ENVIRONMENTS	1.41	7%	57%
MacThrift Office Furniture	1.37	7%	64%
Forms & Supply, Inc-FSloffice	1.16	6%	70%
Nightingale Corp	0.42	2%	72%
CAROLINA BUSINESS INTERIORS	0.36	2%	74%
ALFRED WILLIAMS & COMPANY	0.35	2%	76%
Others (412)	4.72	24%	100%
Total	19.62	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$15.6	13
Last 20%:	\$4.0	409

Furniture and Fixtures Industry Trends & Observations

Industry Summary

Industry Trends:

- Drop in commodity prices, labor rates, and slowed demand due to economic conditions make it an ideal time for the State of NC to renegotiate current contracts and enter strategic partnerships with large vendors capable of providing multiple types of furniture
- US Furniture industry has observed a strong compounded annual growth rate of 4.9% from 2004 to 2008 (Source: Datamonitor)
- The compound annual growth rate of the market in the period 2009-14 is predicted to be 1.3%.
- Industry is highly fragmented with a high level of rivalry and low profit margins making it unattractive for entry from domestic manufacturers
 - Over 21,000 companies in the industry
 - The 50 largest companies account for less than 40% of the total revenue
- Imports from China represent over 60% of industry imports and projections indicate Chinese import share to increase

Key Industry Vendors:

- Herman Miller, Steelcase, Knoll, Haworth

Observations

- Spend data is fragmented across entities
 - DOC is the largest spend (21%), 37% of which is spending with Corrections Enterprises for bunk beds, chairs, and book cases
 - 54% of the total category spend is comprised of 85 entities spending less than \$500k each
- Contract 420A (furniture, metal, folding chairs, tables, storage units) has 8 vendors listed with a delivery time range of 7 days to 60 days
 - Savings could be achieved with longer or standardized delivery times
- Wide range of furniture purchased including furniture for school rooms, offices, cafeterias, prisons, and libraries
- Majority of spend is on office and school room furniture, which will lessen (but not eliminate) SKU consolidation impact
- Extended agencies note difficulties using term contracts due to specifications that do not meet agency needs
- GS143-57.1 requires that furniture contracts have multiple vendor awards to ensure coverage
 - Additionally, the statute allows entities to purchase off contract if the available furniture is not compatible with their interior architectural design needs

Furniture and Fixtures Recommended Sourcing Approach

Recommended Sourcing Approach

- Reduce spend on new furniture through integrated approach to furniture assets (e.g. central database and redeployment of surplus product to areas of need)
- Reduce prices through consolidation of purchasing leverage
 - Include additional discounts for increased spend volumes for non-required entities
- Drive out unnecessary design and sourcing cost through greater standardization of furniture solutions for each space type, and managing service response expectations
- Eliminate unnecessary processing expense through streamlining ordering/invoicing transactional processes to drive out unnecessary costs at all stages of furniture lifecycle
- Strategic category management to ensure maximum value per dollar spent on furniture and global visibility/leverage of leading practice
- Sourcing strategic partner to provide expertise and flexible resources on an as-needed basis
- Research process improvements
 - Reduce inventory levels & holding costs
 - Perform lease vs. buy analysis
 - Investigate eAuction opportunity
- Expand requirements gathering exercises to the broader user group to foster increased spend against term contracts

Additional Information

- Sample line item spend data includes bunk beds, desks, book cases, and chairs.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$12.5M (63.9%)
- State term contracts identified for this category during analysis: 420A

Health Services Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$219.3M
Total Spend – FY '10		\$348.1M
Est. Addressable Spend	10%	\$34.8M
Savings Opportunity	5% - 10%	\$1.7M – 3.5M
Estimated Sourcing Duration		12 Months

Opportunity Assessment

- The addressable component of the Health Services category is targeting the temporary health services provided by vendors and is represented by an estimated 10% of the addressable spend.
- OSP has recently expanded their services offered to include nurses and doctors
 - Services are restricted to the Raleigh area
- Leakage of spend into the Administrative Services category; further research required to capture full spend
- Some agency contracts in place, but limited SLAs to enforce availability of services leads to spending with other vendors
- Opportunities exist to reduce costs by consolidating the supply base
 - Separate spending into sub-categories
 - Standardize role definitions
 - Establish preferred vendors by subcategory

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
United Veteran Services of Nor	160.00	46%	46%
Cardinal Health Pharmaceutical	51.73	15%	61%
UNC Health Care Trauma Program	25.00	7%	68%
PROFESSIONAL NURSING SOLUTIONS	13.48	4%	72%
MOORE REGIONAL HOSPITAL	5.44	2%	73%
ARCADIA HEALTH SERVICES, INC.	4.88	1%	75%
Mobile Medical Int'l Corp	4.60	1%	76%
KINDRED PHARMACY SERVICES	4.50	1%	77%
AMERISOURCEBERGEN	4.38	1%	79%
SUPPLEMENTAL HEALTH CARE	3.72	1%	80%
Others (1251)	70.42	20%	100%
Total	348.13	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$277.7	10
Last 20%:	\$70.4	1251

Health Services Industry Trends & Observations

Industry Summary

- U.S. health spending is projected to reach nearly \$4.6 trillion by 2019, growing at an average annual rate over the next decade of 6.3 percent, according to economists at the Centers for Medicare and Medicaid Services (CMS).
- Health care spending has risen 2.4% faster than the US GDP since 1970
- Next year (2011), Hewitt projects an 8.8 percent average premium increase for employers, compared to 6.9 percent in 2010 and 6.0 percent in 2009.
- Forecasts indicate health care spending in 2018 will reach \$4.3 trillion, \$13,100 per resident, 20.3% of US GDP

Observations

- The Department of Corrections accounts for 29% of the spend
- Based on line item description, majority of spend seems to be direct payment to physicians for treatment/diagnosis of patients
- Spend classified as 'Miscellaneous Services' will need deeper analysis during sourcing for potential additional addressable spend.
- DHHS' Health Care group has recently signed contracts with 2 suppliers for temporary nurses, Supplemental Health Care and DZEEL Clinical Healthcare
 - Role definitions are defined and aligned to fixed pricing
 - No SLAs that require availability, so non-contract vendors are still heavily leveraged

Health Services Recommended Sourcing Approach

Recommended Sourcing Approach

- Leading Practices:
 - Consolidate demand/volume and vendors
 - Strategically source for longer-term (2-3 yrs) contract (not by job)
 - Utilize Healthcare Staffing agencies with a wide range of capabilities
 - Focus on standardizing positions and develop rate cards
- Explore leading practices by states with lower inmate health costs:
 - Evaluate the potential use of pooled doctors across multiple facilities/entities
 - Use more physician assistants instead of doctors
 - Reduce NC nurse and dental personnel
 - Initiate inmate co-pay charges to reduce the number of unnecessary visits
- Increase competition among vendors
- Issue new RFP and employ fact based negotiations

Additional Information

- Sample line item spend data includes management and operations of the NC State Veterans Home, AIDS drug assistance program treatments, dialysis, hospital, outpatient services.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$235.4M (67.6%)
- State term contracts identified for this category during analysis: N/A

Industrial Equipment and Service Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$17.8M
Total Spend – FY '10		\$16.9M
Est. Addressable Spend	40%	\$6.8M
Savings Opportunity	5% - 10%	\$0.3M – 0.7M
Estimated Sourcing Duration		6 Months

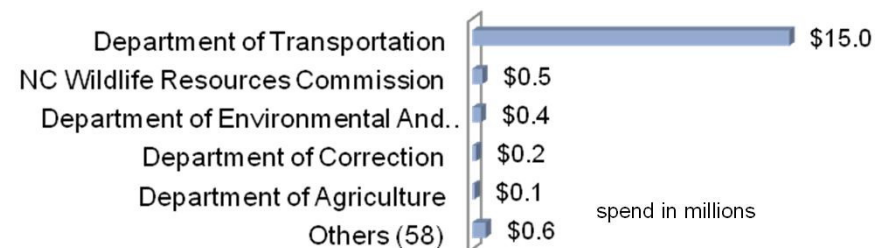
Opportunity Assessment

- The supply base is fragmented for this category,
 - 19 (4.5%) vendors account for 80% of the spend
 - 431 total vendors
- 89% of the spend is consolidated within DOT, with 62 other entities spending less than \$500k each
- Further evaluation needed determine whether leasing equipment or purchasing equipment would provide long term savings
- Consolidation of equipment and control at the state level would provide opportunity to increase utilization of equipment and increase leverage
 - Potential to bundle equipment purchases with service and rental contracts to increase buying power

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
Carolina Tractor & Equipment	1.93	11%	11%
VALK MANUFACTURING COMPANY	1.88	11%	23%
NEFF RENTAL	1.84	11%	33%
ROB'S HYDRAULICS	1.26	7%	41%
JAMES RIVER EQUIPMENT CAROLINA	1.00	6%	47%
GREGORY POOLE EQUIPMENT CO.	0.91	5%	52%
Vermeer Mid Atlantic	0.61	4%	56%
Swenson Spreader	0.51	3%	59%
R W MOORE EQUIPMENT CO INC	0.43	3%	61%
H & E Equipment Company	0.39	2%	64%
Others (421)	6.12	36%	100%
Total	16.89	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$13.5	19
Last 20%:	\$3.4	412

Industrial Equipment and Service Industry Trends & Observations

Industry Summary

- Observed trend indicates companies leasing their industrial equipment and service with vendors capable of providing wide array of equipment with operators
- Number of Industrial Equipment rental firms continue to grow as more and more companies are increasingly re-evaluating capital expenditures

Observations

- Contract 020C (Utility Vehicles) has three utility vehicles ranging in price from \$5,000 to \$11,000 with highest priced item having the lowest amount of savings
- Small spend among large number of entities outside of DOT
- Spend overlap with the Industrial Equipment Rental Category
 - 10 of top 20 vendors in category are also in top 20 vendors in the “Industrial Equipment Rental” analysis category
 - Line item descriptions are the same for several line items between both categories
- Fleet Management within DOT maintains a revolving equipment account to replace end-of-life equipment as needed
- Further analysis needed to clarify the split between automotive fleet, industrial equipment, and agricultural equipment purchases

Industrial Equipment and Service Recommended Sourcing Approach

Recommended Sourcing Approach

- Industry leading practices include utilizing a TCO model to determine whether a lease or purchase of equipment provides the highest level of value and service.
 - Factors to incorporate in the TCO model include down-time, maintenance costs, facility costs, service costs, transportation costs, operating costs, etc.
 - Final strategy should include a plan for purchase as well as rentals; plans should be complimentary
 - Utilization should be tracked to ensure that maximum value is being realized from purchases and rentals
- Utilize fact based negotiations in conjunction with a TCO model to achieve a preferred vendor model for the category
- Explore opportunity to include service contracts in purchase or lease of equipment to minimize overhead costs of service and maintenance and increase leverage during sourcing
- Explore end of lease purchase options and evaluate asset disposal options
- Understand the usage patterns of equipment within and across entities and maximize on centralization of equipment management

Additional Information

- Sample line item spend data includes loaders and dozers, blades, plows, spreaders. Many lines are similar to the data found in the Industrial Equipment Rental spend.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$0.8M (4.9%)
- State term contracts identified for this category during analysis: 020C

Industrial Equipment Rental Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$32.9M
Total Spend – FY '10		\$50.8M
Est. Addressable Spend	70%	\$35.6M
Savings Opportunity	4% - 8%	\$1.4M – 2.8M
Estimated Sourcing Duration		6 Months

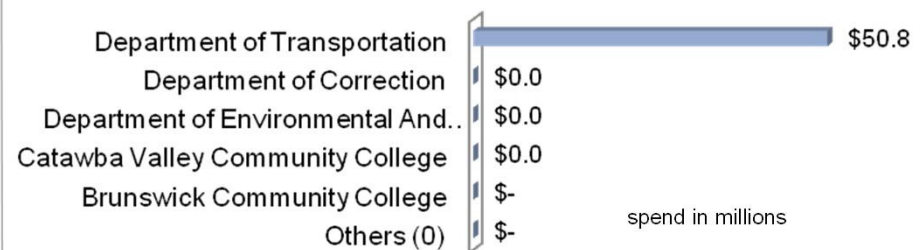
Opportunity Assessment

- The supply base is reasonably consolidated for this category
 - Two (4%) vendors account for 80% of the spend
 - 49 total vendors
- DOT owns more than 99% of the spend in this category.
- Additional purchases from entities should be managed by the Department of Transportation to further consolidate and improve pricing for other entities
- However, incremental opportunities still exist to improve leverage by further consolidating the supply base and establishing contracts
 - Utilize fact based negotiations in conjunction with a total cost of ownership model to fulfill a preferred vendor model
 - Competitively bid to increase discount rates

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
Carolina Tractor & Equipment	36.18	71%	71%
NEFF RENTAL	7.44	15%	86%
JAMES RIVER EQUIPMENT CAROLINA	2.23	4%	90%
BRIGGS CONSTRUCTION EQUIPMENT	1.14	2%	92%
GREGORY POOLE EQUIPMENT CO.	0.60	1%	94%
Vermeer Mid Atlantic	0.49	1%	95%
H & E Equipment Company	0.42	1%	95%
May Heavy-Equip Rental & Sales	0.32	1%	96%
DeSoto Trail Construction	0.28	1%	97%
Anderson Crane & Bridge	0.25	0%	97%
Others (39)	1.47	3%	100%
Total	50.80	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$43.6	2
Last 20%:	\$7.2	47

Industrial Equipment Rental Industry Trends & Observations

Industry Summary

Industry Trends:

- US Commercial and Industrial Equipment Rental industry includes more than 8,000 companies with a combined revenue of approximately \$43B (Source: Hoovers)
- Non-residential construction industry growth is highly correlated with economic growth
- Large percentage of industrial equipment rental is local or regional

Key Industry Vendors:

- United Rentals, Sunbelt Rentals, and Hertz

Observations

- 99%+ of spend is primarily consolidated with DOT
- 10 of top 20 vendors in category are also top 20 vendors in the “Industrial Equipment and Service” analysis category
- DOT divisions may rent State-owned equipment through Fleet Management, but may also rent directly from vendors (off-contract) as needed
 - Limited contracts in place, rentals occur on a spot buy basis
 - Pricing is negotiated by the divisions, not by DOT or P&C procurement

Industrial Equipment Rental Recommended Sourcing Approach

Recommended Sourcing Approach

- Clarify the true spending in this category that is outside of automotive fleet and agricultural equipment
- Conduct a competitive event to ultimately reduce the supply base:
 - Identify specific equipment rented on a regular basis, and those rented on an ad-hoc schedule
 - Structure the RFP to target secure set rates for the regularly rented equipment and flat discounts for ad-hoc rentals
 - Ensure that equipment is available from vendors in all regions
 - Possibility utilize e-auctions
- Plan for renting equipment should compliment the plan for purchase and maintaining

Additional Information

- Sample line item spend data includes general entries for renting equipment. Examples include: "****SERVICE ORDER*** DOT OPERATED RENTAL EQUIPMENT 1 AU @ \$5,439,306.00 PER AU FULLY OPERATED EQUIPMENT & DOT OPERATED EQUIPMENT RENTAL, ARE TO BE IN ACCORDANCE WITH RENTAL AGREEMENT FOR USE IN CLEVELAND & GASTON COUNTIES. CONTRACT PERIOD: 01/31/20"
 - Note – SAP data from DOT not included in the scope of the assessment refresh
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$0.03M (0.1%)
- State term contracts identified for this category during analysis: N/A

IT Services Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$213.4M
Total Spend – FY '10		\$220.7M
Est. Addressable Spend	20%	\$44.1M
Savings Opportunity	10% - 15%	\$4.4M – 6.6M
Estimated Sourcing Duration		6 Months

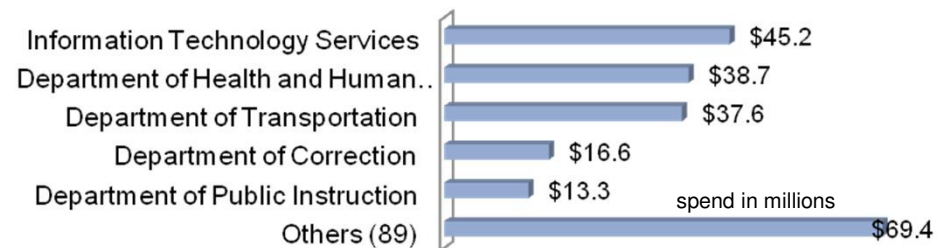
Opportunity Assessment

- Outside the ITS spend (38%), the supply base is highly fragmented:
 - 38 (2.5%) vendors account for 80% of the spend
 - 1,508 total vendors
- Addressable spend is targeting staff augmentation vendors
 - Opportunities exist to consolidate the total spending for staff augmentation and establish contracts with preferred suppliers
 - Ensure use of standardized job categories
 - Utilize fact based negotiations to negotiate mark ups
- 200+ vendors identified on Short -Term IT Staffing Contract
- Evaluate potential for third party maintenance providers
- Further evaluation of spend needed to identify the actual spend in each of the service subcategories(i.e. – staff augmentation, consultative, outsourcing, etc)
- Potential impact to the IT Services addressable spend and savings depending on outcome of INSA project

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
INFORMATION TECHNOLOGY SVCS	75.24	34%	34%
COMPUTER ASSOCIATES INTL INC	11.53	5%	39%
DELL - NON-CATALOG ONLY	11.46	5%	45%
INFORMATION TECHNOLOGY SERVICE	9.41	4%	49%
Herzog Transit Services, Inc.	6.87	3%	52%
KEANE, INC	5.08	2%	54%
Oracle USA, Inc.	4.35	2%	56%
ALPHANUMERIC SYSTEMS INC	4.33	2%	58%
Novell, Inc.	4.14	2%	60%
Datatel, Inc.	3.76	2%	62%
Others (1498)	84.55	38%	100%
Total	220.71	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$176.0	38
Last 20%:	\$44.7	1470

Industry Summary

Industry Trends:

- Global IT Services grew in 2008 by 6.7% to \$1,057 billion (Source: Datamonitor)
 - Strong growth with a CAGR of 9.4% from 2004 to 2008
- Industry growth expected to remain strong (Source: Datamonitor)
 - In 2014, the global it services industry is forecast to have a value of \$1,436.8 billion, an increase of 32.9% since 2009.
 - CAGR of 5.8%
- Industry is highly fragmented, but name recognition and reputation are significant among customers
- Expertise and brand are two main barriers to entry
- Outsourcing is a continuing trend to reduce costs

Key Industry Vendors:

- Computer Aid, Info Matrix, Ajilon, DGS

Observations

- Not a clear distinction between staff augmentation vendors, consultative vendors, and outsourcing vendors (possibly other beneficial distinctions as well)
- Contracting for IT services is handled through IT Procurement
 - Key Contract: Short Term IT Staffing Contract (ITS-002441)
 - Contract contains 200+ preferred vendors with rates
- Rate ranges for vendors have been established in various IT expertise areas
- Spend line items related to ELAs with major suppliers could result in reduced savings opportunity
- Spend classified as 'Miscellaneous Services' will need deeper analysis during sourcing for potential additional addressable spend

Recommended Sourcing Approach

- Segment staff augmentation vendors, consultative vendors, and outsourced vendors so a different strategy can be taken with each supplier segment.
- Re-contract for staff augmentation vendors in order to move to a preferred supplier model or vendor managed solution (a reverse auction could be used as part of this process). A VMS solution is preferred since it is easier to track the number and quality of staff augmentation resources.
- Expand use of third party maintenance services providers, after original warranty and follow-on maintenance service contracts expire.
- Utilize RFP for FA data center for IT hardware maintenance, based on warranty and maintenance expiration and maintenance.
- Additional opportunities include:
 - Negotiation of mark up
 - Standardized job categories – while this is a more time consuming process, it allows for a streamlined process with supplier and client having a common understanding of the skills required for a certain position

Additional Information

- Sample line item spend data includes Mainframe maintenance, Project Management Services, SAP Tech Support, Services, Microsoft Software Service Agreement, Computer Systems Analysis Support Services, Desktop Support Services, Customer Network Engineering, Novell ELA, MySAP Maintenance.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$58.2M (26.4%)
- State term contracts identified for this category during analysis: N/A

Legal Services Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$113.8M
Total Spend – FY '10		\$16.7M
Est. Addressable Spend	10%	\$1.7M
Savings Opportunity	4% - 12%	\$0.1M – 0.2M
Estimated Sourcing Duration		8 Months

Opportunity Assessment

- 50% of State's spend is from the Administrative Office of The Courts
- 83% of the spend is direct pay
- No public statewide contracts were found
- Potential opportunity to drive savings through consolidation of current law firms (for each practice area):
 - Spend is fragmented: Top 80% of spend is with 47 different vendors
 - Implementation of a primary and secondary provider model and the standardization of rate cards would maximize potential savings
- Additional possible synergies between spending in the Legal Services and the Rent and Real Estate category for land acquisition costs

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
NC DEPARTMENT OF JUSTICE	3.79	23%	23%
NC PRISONER LEGAL SERVICES	3.05	18%	41%
Hunsucker Goodstein & Nelson PC	0.46	3%	44%
MECKLENBURG CO CLERK OF COURT	0.41	2%	46%
Duncan Weinberg Genzer & Pembr	0.39	2%	48%
WAKE COUNTY CLERK OF SUPERIOR	0.31	2%	50%
WOMBLE CARLYLE SANDRIDGE	0.27	2%	52%
GUILFORD CNTY CLERK OF COURT	0.25	2%	53%
WOMBLE CARLYLE SANDRIDGE AND	0.25	1%	55%
DURHAM COUNTY CLERK OF COURT	0.24	1%	56%
Others (536)	7.34	44%	100%
Total	16.74	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$13.3	47
Last 20%:	\$3.4	496

Legal Services Industry Trends & Observations

Industry Summary

Industry Trends:

- The Legal Services market is highly fragmented and competitive:
 - The 50 largest firms (out of ~170,000) generate less than 15% of the total revenue (Source: Hoovers)
 - Companies must retain clients in a market where switching costs are low for buyers, who often readily switch firms
 - Indicates opportunity to renegotiate pricing
 - Reputation of a legal services company is often key to success

Key Industry Vendors:

- Baker & McKenzie, Skadden, Arps, Slate, Meagher & Flom, Latham & Watkins

Observations

- Insufficient use of purchasing power: Spend is fragmented across 546 different vendors
 - Further investigation required to determine capacities of larger law firms (with specialty still considered)
- No statewide agreements were found using publicly available resources, suggesting that engagement of vendors is on an ad-hoc basis
- More information required to determine the structure and efficiency of the end-to-end legal services purchasing process
 - Vendor selection – transparency in rates, quality assurance, value added services, competitive tariffs, etc
 - Invoicing – ability to split, check, and analyze legal cost and thus manage the spend
- Spend classified as 'Miscellaneous Services' will need deeper analysis during sourcing for potential additional addressable spend
- Administrative Office of the Courts spend should be evaluated further to confirm scope

Recommended Sourcing Approach

- Segment firms by legal specialty and issue RFP to the market
 - Negotiate aggressively with each firm to establish:
 - Time - Rate cards by position (administrative, associate, partner)
 - Travel Costs – No markup; put caps in place
 - Copy, Research – At cost
 - Miscellaneous Fees
 - Rebates - Negotiate rebates based on actual annual volumes
- Additional opportunities include:
 - Support the investigation of matter management systems
 - Perform invoice audit to ensure invoices match rate cards
 - E-billing to reduce/eliminate: processing time, data entry workload, paper costs, hourly rate errors, and expense violations

Additional Information

- Sample line item spend data includes varied services, some labeled as personal services, invoice numbers on many lines, many lines lack line descriptions. Much of the data is of direct pay, many lines list NC Dept of Justice as supplier.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$0.1M (0.5%)
- State term contracts identified for this category during analysis: N/A

Med/Lab Supplies and Equipment Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$50.9M
Total Spend – FY '10		\$49.6M
Est. Addressable Spend	50%	\$24.8M
Savings Opportunity	5% - 10%	\$1.2 – 2.5M
Estimated Sourcing Duration		6 Months

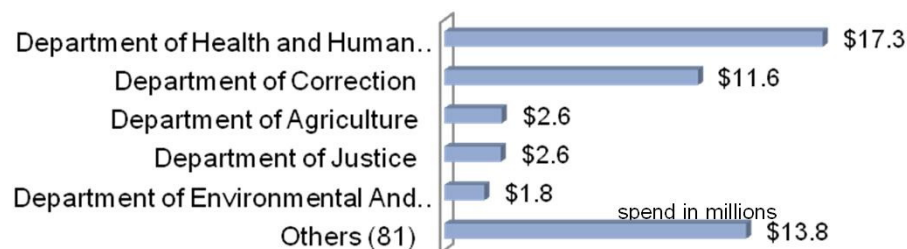
Opportunity Assessment

- 58% of the spend is consolidated within DHHS (35%) and DOC (23%)
- The supply base is highly fragmented for this category:
 - 101 (5%) of vendors account for 80% of the spend
 - 1,922 total vendors
- Opportunities exist to reduce costs by consolidating the supply base:
 - Vendor consolidation to a few large national distributors which supply a wide variety of medical equipment and supplies would be optimal
 - Further evaluation of consortiums required to determine competitiveness of pricing
 - Evaluate the aggregation of equipment purchases across entities

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
Fisher Scientific Company LLC	2.92	6%	6%
PerkinElmer LAS, Inc	2.13	4%	10%
Gen-Probe	1.40	3%	13%
seneca medical inc.	1.36	3%	16%
OPTIMATE, INC.	1.36	3%	18%
SELECT OPTICAL	1.27	3%	21%
DELTA MEDICAL SYSTEMS INC	1.05	2%	23%
Henry Schein Inc.	1.00	2%	25%
Swisslog Healthcare Solutions	1.00	2%	27%
POCKET NURSE ENTERPRISES INC	0.97	2%	29%
Others (1912)	35.14	71%	100%
Total	49.61	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$39.4	101
Last 20%:	\$10.2	1821

Med/Lab Supplies and Equipment Industry Trends & Observations

Industry Summary

Industry Trends:

- US medical and laboratory supplies and equipment has exhibited strong growth in the recent past, but is expected to slow significantly (Source: Datamonitor)
 - CAGR projected to be 4.4% from 2009 to 2014
 - Industry grew 7.7% in 2008 to \$117.8 billion
 - In 2014, the global health care equipment & supplies market is forecast to have a value of \$368.5 billion, an increase of 24.2% since 2009.
- The industry does not have much product differentiation and has exhibited consolidation recently
- Input costs for vendors is volatile and usually unmanageable

Key Industry Vendors:

- Henry Schein, Owens & Minor, and PSS/World Medical

Observations

- 493A (Lab Supplies, Chemicals, Equipment) was consolidated from three vendors into one with Fisher Scientific effective 1/1/10.
- Reviewing transaction data from eProcurement, there are several instances of pricing inconsistencies for the category and lack of purchasing consolidation across agencies
 - DOC buys Electronic Thermometer, Filac 3000, NCAS# 0013965 at comparable quantities dates from same vendor (Moore Medical) for prices ranging from \$174.70 to \$190.00
 - PETRI DISH 100X15 500/CS is purchased for prices ranging from \$54.62 to \$89.50 from Fisher Scientific, independent of quantity or purchase date, from entities including the Department of Agriculture and community colleges
- DHHS Institutions are utilizing Novation GPO for supplies, but DHHS and DOC are prevented from doing so due to their classification as non-medical entities.
- DOC buys many different items from different vendors (e.g., MRI machines)
 - They issue IFBs and award to lowest bidder meeting specification

Med/Lab Supplies and Equipment Recommended Sourcing Approach

Recommended Sourcing Approach

- Segment and consolidate all medical and laboratory supplies and equipment purchases
 - Utilize large national retailers or distributors that are capable of providing a large variety of products
 - Negotiate volume discount to obtain best pricing
 - Obtain long term price reductions tied to joint process savings
 - Standardize equipment where possible
 - Utilize fact based negotiations to further lower pricing
- Centralize purchasing and management of equipment to an entity within the state to facilitate consolidation efforts, inventory management, and equipment utilization
- Proactively manage e-procurement catalog to drive preferred channels and limit duplication of options

Additional Information

- Sample line item spend data includes Titanium Oxide, Robotic Dispensing Equipment, Eye Glass Frames, lenses, test kits of various types, alcohols, chemicals.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$21.7M (43.7%)
- State term contracts identified for this category during analysis: 493A

Micro Computers and Peripherals Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$57.4M
Total Spend – FY '10		\$54.5M
Est. Addressable Spend	70%	\$38.1M
Savings Opportunity	10% - 20%	\$3.8M – 7.6M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- The State's leading practice bulk purchasing program aggregates annual demand for PCs and peripherals
 - Specifications reviewed with each bulk cycle
 - Bulk purchasing program encompasses a maximum of 26% (\$10M) of addressable category spend (source: ITS Bulk Purchase Savings Summaries)
 - Leakage of spend due to exceptions and purchases from other term contracts resulting in lower discount
- Opportunities for savings through continued improvements to the bulk purchasing program:
 - Increase total spend going through bulk purchase program from entities like Community Colleges
 - Standardize specifications and lock in for multi-year contracts with a single provider
 - Leverage total spend to establish competitive contracts with vendors for items purchased outside of the bulk
- Standardize peripheral equipment specifications and contract with preferred vendor/VAR independent of bulk

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
DELL - NON-CATALOG ONLY	14.14	26%	26%
Hewlett Packard - 204 A, J	12.09	22%	48%
Lenovo, Inc.	3.23	6%	54%
CDW GOVERNMENT LLC	2.54	5%	59%
DELL PUNCHOUT CATALOG	2.01	4%	62%
CAROLINA IMAGING	1.63	3%	65%
Forms & Supply, Inc-FSloffice	1.29	2%	68%
EMC CORPORATION	1.27	2%	70%
ALPHANUMERIC SYSTEMS INC	1.14	2%	72%
Apple Computer, Inc.	0.99	2%	74%
Others (924)	14.18	26%	100%
Total	54.48	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$43.5	15
Last 20%:	\$11.0	919

Micro Computers and Peripherals Industry Trends & Observations

Industry Summary

Industry Trends:

- Industry has historically exhibited medium growth and is projected to continue growing at a slightly higher growth rate (Source: Datamonitor)
- In 2014, the global computer hardware market is forecast to have a value of \$263.8 billion, an increase of 36.5% since 2009.
- The compound annual growth rate of the market in the period 2009-14 is predicted to be 6.4%.
- High rivalry in the market due to low product differentiation, high fixed costs, and high exit costs
- Customer loyalty is low, however brand awareness is high and buying power is moderate

Key Industry Vendors:

- Desktops and Laptops: Lenovo, Dell, Hewlett-Packard, Apple
- Peripheral Resellers: CDW, Insight, Software House Intl.

Observations

- Key contract - 204A: Microcomputers and Peripherals (Desktop, Portable, Server, Peripherals)
 - Other term contracts: 204B – 204D (Mobile ruggedized, UNIX, Printers and other peripherals)
- No agency specific contracts or contracts on Openbook with vendors
- The bulk purchasing model for PCs and laptops began in 2004, and has been modified through State agency feedback to current state
 - Client Engineering Work Group, with representatives from the different State Agencies, are responsible for determining the requirements before each quarterly buy; the CIO provides final approval on the specifications
 - There are currently 3 PC and 3 Laptop specs from which users can choose
 - The bulk, including peripherals, is awarded to no more than 2 suppliers (potential split between PCs and Laptops)
 - Users regularly submit POs for 'exceptions' between the bulk, accounting for about 10% of total purchased volume of the bulk
 - The Sept. 2010 bulk was awarded to Lenovo as the first one year term contract, though the 4-month buying is still the process
 - At a summary view, the bulk purchasing program represents only a portion (26% or less) of the addressable category spend
- Current discount off list prices are less than what can be achieved (excluding the bulk purchase items), as high as 40% to 50% off list
- Large portion of category spend (minimum of 58%) is based off of established contracts
- NC Senate Bill 202 (section 6.11) requires state universities to purchase Information technology purchases under ITS further increasing spend leverage and potential benefits.
- IT Procurement is currently negotiating contract terms with Apple, but has not been able to reach agreement
- IT Procurement is in the process of evaluating the need for a tablet computer contract

Micro Computers and Peripherals Recommended Sourcing Approach

Recommended Sourcing Approach

- Recommendations include:
 - Standardize specifications to increase volumes and associated discounts at the time of purchase
 - Extend standard specifications for longer durations to drive savings in other TCO elements (i.e. imaging, maintenance and support, etc)
 - Forecast volumes and make multiyear commitments to obtain additional discounting
 - Conduct reverse auction based on forecasted aggregate volume, highlighting the FY 2011 refresh as the central point
 - Ensure the warranty included is appropriate. Recommended that standard warranties are negotiated into the cost of the unit and no extended warranties if you have desktop support. Extended warranties are expensive and typically are not used since the technology changes so much so often.
 - Keep desktop support current on all technology. This reduces out of warranty repairs which are typically very expensive (T&M).
 - For peripheral equipment, negotiate a cost/plus model. Negotiating set prices is futile as pricing for items such as memory fluctuate on nearly a daily basis. Locking in the “margin” for the vendor is a more appropriate way to go in this type of commoditized item for IT.

Additional Information

- Peripheral equipment is typically low dollar volume, high transactional items. It is worth considering having an account or eProcurement catalog set up with a discrete user base. Should be reviewed independently from PCs.
- Sample line item spend data includes EMC Data Domain model DD880 storage appliance, HP COMPAQ 6005, PC Refresh Project (DOC), Blade Servers, laptops, servers, desktops, hard drives.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$31.8M (58.4%)
- State term contracts identified for this category during analysis: 204A, 204B - 204D

Mini/Mainframe Computers and Peripherals Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$11.9M
Total Spend – FY '10		\$17.2M
Est. Addressable Spend	60%	\$10.3M
Savings Opportunity	5% - 10%	\$0.5M – 1.0M
Estimated Sourcing Duration		6 Months

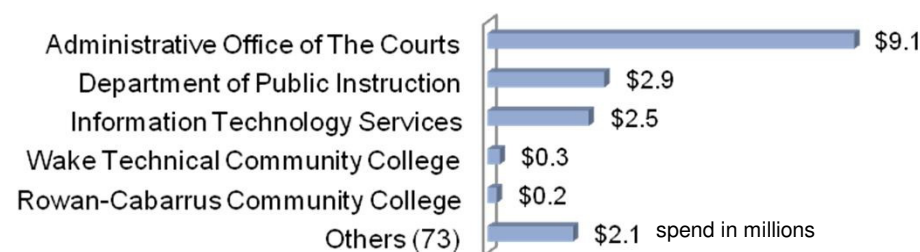
Opportunity Assessment

- The supply base is fragmented for this category
 - 9 (5%) vendors account for 80% of the spend
 - 179 total vendors
- Opportunities exist to reduce costs by consolidating the supply base and utilizing a preferred vendor model
 - Standardize products and manage costs of accessories
 - Evaluate bundling of maintenance and repair services, accessories (cables, hardware, drives, etc), and data storage (tapes)
 - Increase centralization of purchasing of category with ITS and have ITS manage purchases, maintenance, repair, and other services
 - Leverage all future known or planned purchases
- Potential impact to the category addressable spend and savings depending on outcome of INSA project

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
IBM CORPORATION	3.98	23%	23%
ALPHANUMERIC SYSTEMS INC	3.00	17%	41%
ViON Corporation	2.00	12%	52%
COLEMAN TECHNOLOGIES	1.23	7%	59%
BMC SOFTWARE INCORPORATED	1.03	6%	65%
DELL - NON-CATALOG ONLY	0.80	5%	70%
CA INCORPORATED	0.79	5%	75%
SERENA SOFTWARE INCORPORATED	0.54	3%	78%
EMC CORPORATION	0.51	3%	81%
INFORMATICA CORPORATION	0.46	3%	83%
Others (169)	2.84	17%	100%
Total	17.17	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$13.9	9
Last 20%:	\$3.3	170

Mini/Mainframe Computers and Peripherals Industry Trends & Observations

Industry Summary

Industry Trends:

- IBM continues to dominate the server market with over 90% market share in the US (Source: Hoovers)
- Industry continues to move from specialized components and software to more standard products
- Large productivity gains continue to help drive down costs of components
- Foreign design facilities continue to grow to assist vendors in taking advantage of low-cost labor
- Vendors continue to develop alliances with other vendors to increase product and service offerings

Key Industry Vendors:

- IBM, HP, Sun Microsystems

Observations

- Category can be subcategorized into three major categories: Storage devices (\$2.1M), hardware (\$6M), and Mainframe Maintenance (\$9.1M, 100% AOC spend – see below)
- Administrative Office of the Courts spend should be evaluated further to confirm scope
 - Spend is 100% direct pay for Mainframe Maintenance
 - Contributes 100% of the direct pay spend for this category (53% of total spend)
- Key contract: 204J – Mass Storage Components
- PO data shows some overlap with Micro Computers

Mini/Mainframe Computers and Peripherals Recommended Sourcing Approach

Recommended Sourcing Approach

- Consolidate purchases and leverage total spend utilizing a preferred vendor model
- Negotiate installation and maintenance fees at the time of purchase as part of the TCO model
 - Negotiate maintenance at regular intervals to ensure maximum spend leverage and discounts with preferred vendors
- Standardize and consolidate SKUs as applicable
 - SKU specifications should be detailed and specific to avoid vendor 'upselling'
- Identify a team responsible for managing areas of supplier relationship, to address technical support, product quality, delivery cycles and identify process improvements to further improve interactions with preferred vendors

Additional Information

- Sample line item spend data includes Sun Enterprise Servers, Dell EqualLogic servers, tape loaders, cables, scanners, and switches.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$6.5M (38.1%)
- State term contracts identified for this category during analysis: 204J

MRO Supplies and Equipment Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$106.5M
Total Spend – FY '10		\$133.7M
Est. Addressable Spend	50%	\$66.8M
Savings Opportunity	8% - 15%	\$5.3M – 10.0M
Estimated Sourcing Duration		8 Months

Opportunity Assessment

- MRO spend is largely fragmented
 - Top 80% of spend is with 176 vendors, with 4,938 total vendors in the category
- 8% of the spend is with Corrections Enterprises, 82% of which is attributed to metal signage
- Multiple contracts for MRO integrators suggest that spend is not being fully leveraged
 - WSCA convenience contract consolidates multiple previous contracts (lamps, safety equip, plumbing fixtures)
 - Multiple contracts with Unisource
- P-card Spend Identified: \$4.2M (3.1%)
- Opportunity to aggregate demand and obtain better leverage with key vendors

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
NC Department of Correction	10.23	8%	8%
RODGERS BUILDERS INCORPORATED	6.10	5%	12%
GREGORY POOLE EQUIPMENT CO.	5.35	4%	16%
QUALITY METALS INC	5.33	4%	20%
ROHM & HAAS COMPANY	4.82	4%	24%
BANK OF AMERICA	4.23	3%	27%
3M Company - TSS	3.44	3%	30%
POMONA PIPE PRODUCTS	3.14	2%	32%
POTTERS INDUSTRIES INC	2.22	2%	34%
LANE ENTERPRISES	2.06	2%	35%
Others (4928)	86.79	65%	100%
Total	133.68	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$106.4	176
Last 20%:	\$27.3	4762

MRO Supplies and Equipment Industry Trends & Observations

Industry Summary

Industry Trends

- Main channels for MRO items are distributors and integrated vendors
- Several large vendors offer the full range of MRO equipment and supplies
- The MRO industry is highly fragmented and regionalized, however, there are some national players that offer large contracts
- Integrated vendors offer products from numerous sub-categories and are generally able to leverage their volume and scale to offset some market price increases
- Vendor Managed Inventory (VMI) and MRO Outsourcing Agreements: economic downturn is accelerating buyer interest in vendors taking on more of the responsibility for MRO purchasing and inventory management

Key Industry Vendors:

- Grainger, Rexel, Graybar, Wesco, Unisource, Applied Industrial

Observations

- Contract 445b - MRO Supplies: [Grainger]
 - Mandatory use is not enforced agency-wide, resulting in a large loss of potential savings
 - In effect since 2007 – may need to revisit market basket to identify top spend categories and ensure best pricing
- Multiple contracts in effect with the same vendor, suggesting demand not being consolidated to its maximum potential:
 - Grainger: 445A - Tools, Hand, Related Accessories, 445B - MRO Supplies
 - Unisource: 485D - Floor Maintenance Materials, 365A - Floor Maintenance Machines, 640A - Napkins, Bathroom Tissue, Paper Towels
- Vendor Managed Inventory (VMI) or MRO Outsourcing does not seem to be in effect – further investigation would be required to determine whether these purchasing models are beneficial for NC (e.g.: Are efficient technologies and equipment in place to support?)
- DOC expects current spend in this category to increase due to two new hospital facilities coming on line in July 2011

MRO Supplies and Equipment Recommended Sourcing Approach

Recommended Sourcing Approach

- Research and define the complex subcategories contained within MRO
 - Clarify scope and spend of category as compared to Building Management Services
- Identify processes for MRO materials distribution, inventory management, spot buys and inventory re-orders
- Conduct analysis and competitive events at the subcategory level
 - Target regional and national suppliers
 - Require commitments for cost savings targets, vendor managed inventory (VMI), catalogs, and value-add services
 - Potential to utilize eAuctions
 - Many of the subcategories will be highly complex and often require multiple rounds of sourcing
- In more complex purchasing environments, integrators can be leveraged to manage sourcing of MRO

Additional Information

- Sample line item spend data includes acrylic emulsion, auto aluminum, calcium carbonate, glass spheres, pigment, blanket POs for Auto Paint and Supplies.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$15.9M (11.9%)
- State term contracts identified for this category during analysis: 445B

Network Equipment Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$24.8M
Total Spend – FY '10		\$20.9M
Est. Addressable Spend	50%	\$10.5M
Savings Opportunity	5% - 15%	\$0.5M – 1.6M
Estimated Sourcing Duration		6 Months

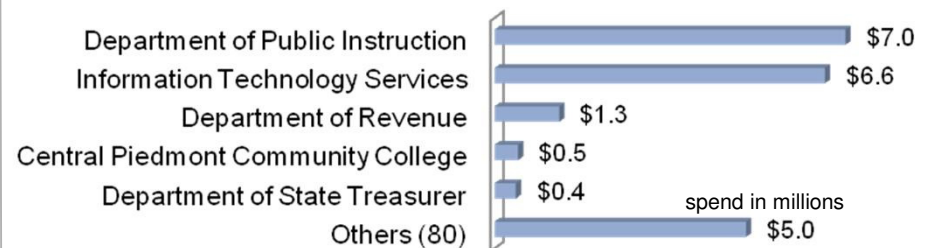
Opportunity Assessment

- The supply base is fragmented for this category
 - 9 (4%) of vendors account for 80% of the spend
 - 215 total vendors
- Spend data shows significant overlap with vendors in other IT and Telecom spend categories
- Further evaluation necessary to determine blanket POs vs. previously financed goods vs. internal ITS transfers
- Opportunities exist to reduce costs by consolidating the supply base, exploring aftermarket options, and optimizing product lifecycle
 - Where possible identify “standard/off-the-shelf” items and consolidate spend across entities and vendors
 - Evaluate benefits and costs of centralizing purchasing control of network equipment with ITS
 - Evaluate subcategory spend in greater detail to validate opportunity
 - Where possible, leverage cross-category spending for increased discounts

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
INFORMATION TECHNOLOGY SVCS	7.67	37%	37%
Key Government Finance, Inc.	5.42	26%	63%
Coleman Technologies, Inc.	0.96	5%	67%
NWN Corporation	0.72	3%	71%
DELL - NON-CATALOG ONLY	0.53	3%	73%
Hewlett Packard - 204 A, J	0.53	3%	76%
NWN Corporation	0.41	2%	78%
MAINLINE INFORMATION SYSTEMS	0.37	2%	79%
CDW GOVERNMENT LLC	0.30	1%	81%
DELL PUNCHOUT CATALOG	0.28	1%	82%
Others (205)	3.73	18%	100%
Total	20.91	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$16.9	9
Last 20%:	\$4.0	206

Network Equipment Industry Trends & Observations

Industry Summary

Industry Trends

- Global industry has shown a strong level of growth in recent history and is expected to grow at a slower rate (Source: Datamonitor)
 - Global industry experienced growth of 5% in 2008 to reach \$112.8 billion
 - Global CAGR of 6.2% between 2004 and 2008
 - Forecasted CAGR globally of 3.8% through 2013
 - Forecasted CAGR for the US of 1.2%
- Continuous technology changes have been driving growth
- Strong rivalry among vendors due to high number of vendors, high fixed costs, buyer power due to low costs to change vendors
- Industry is highly concentrated with the 50 largest firms accounting for 90% of the industry revenue (Source: Hoovers)

Key Industry Vendors (US-specific)

- Cisco Systems, Juniper Networks, Nortel Networks Corporation, Avaya Inc.

Observations

- Potentially high overlap with other 204A-L contracts in other IT categories and with telecommunications category
- Specific LAN switch state term contracts exist (204K,L)
- A subset of products in this category are expected to be conducive to standardization and available from multiple vendors
- Large national vendors are not being utilized in favor of more local/regional vendors
 - Several instances identified in which equipment manufactured by large national vendors (Cisco) is purchased through distributor or through local/regional vendor
- DPI is purchasing \$7M from ITS for an Oracle License for Support and Maintenance
- ITS is financing equipment through Key Government Finance, who is providing the cash outlay for Cisco goods through Coleman(reseller). Agencies also procure directly from Coleman.

Network Equipment Recommended Sourcing Approach

Recommended Sourcing Approach

- Differentiate between unique/sole sourced products vs. standard/commoditized products (e.g. storage)
- Re-contract using strategic sourcing focused on high volume standardized configurations and products
 - Assumes standardized configurations and/or product specification are possible
 - Use of a “market basket” approach
 - Evaluate benefits of combining re-contracting efforts with other IT contracts
- Ensure products selected are price optimized based on their current status on product lifecycle
- Explore options of returns of equipments/parts to vendor for full/partial refund
- Explore after market vendors (spot buys) to maximize benefits where possible

Additional Information

- Sample line item spend data includes end of life equipment refresh for Server Farms, WAN Cores, mass storage, firewalls, routing switches, storage nodes, IBM Blade Centers
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$4.5M (21.6%)
- State term contracts identified for this category during analysis: 204A-L

Office Equipment Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$12.2M
Total Spend – FY '10		\$14.4M
Est. Addressable Spend	60%	\$8.6M
Savings Opportunity	10% - 20%	\$0.9M – 1.7M
Estimated Sourcing Duration		8 Months

Opportunity Assessment

- Lack of clear preferred supplier or product strategy leading to fragmented supplier base
 - The top 80% of spend (\$11.5M) is with 18 different vendors – highly fragmented for the industry
 - Minimum of \$5.5M (38%) contract spend identified
- ITS is currently piloting an MPS program as well as purchasing other printers in bulk
 - No specification standardization of printers in bulk purchase process
- Opportunities to drive savings through:
 - Expansion of ITS' MFD pilot to the other agencies
 - Reduce the supply base and increase volume discounts by establishing contracts with the industry leading vendors:
 - Leverage demand across agencies
 - Rationalize specifications
 - Additional demand management opportunities to drive savings may also exist
 - Reduce volume of desktop printers

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
IBM - NON-CONTRACT ORDERS	3.02	21%	21%
XEROX CORPORATION	1.91	13%	34%
Insight Public Sector, Inc.	1.06	7%	42%
SYSTEL BUSINESS EQUIPMENT CO.	1.04	7%	49%
Toshiba Business Solutions	1.02	7%	56%
IKON OFFICE SOLUTIONS	0.51	4%	59%
CDW GOVERNMENT LLC	0.50	3%	63%
Konica Minolta U.S.A., Inc.	0.49	3%	66%
PITNEY BOWES INC	0.38	3%	69%
Forms & Supply, Inc-FSlooffice	0.27	2%	71%
Others (359)	4.20	29%	100%
Total	14.40	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$11.5	18
Last 20%:	\$2.9	351

Office Equipment Industry Trends & Observations

Industry Summary

Industry Trends:

- Multi-functional device (MFD) technology increasing competition in the industry and gaining market share
- Reduction in purchasing of MFD equipment as clients move to MPS and leasing arrangements
- Industry is capturing additional revenues from the Office Supplies industry through inclusion of consumables (paper, staples, etc) in their cost per click charges
- Demand for office equipment is decreasing due to:
 - eBusiness, growth in internet and other non-print media, existence of alternatives to photocopying (e.g., email, digital printers)

Key Industry Vendors:

- Canon, Xerox, Ricoh, Konica Minolta

Observations

- ITS is currently piloting an MPS program which is targeted to roll out to other centralized agencies, then state-wide. The timeline has not been finalized at this time.
 - Potential impact to category strategy from INSA project.
- ITS purchasing printers in bulk every 4 months, driving additional discounts from list. Unlike the PC bulk, the printer specifications are not standardized in any manner, further reducing the ability to gain volume discounts.
- Current contracts have numerous segments (product lots) and numerous suppliers within each segment decreasing buying power
 - Multiple suppliers provide the same or very similar equipment further decreasing buying power
- Current statewide contracts are only mandatory for executive Branch Agencies
 - Contract 204D – Printers and Peripherals (Bulk Purchase Contract)
 - Contract 600B – Copiers with Maintenance and Supplies
- Potential need to evaluate remanufactured toner cartridges for quality as compared to OEM cartridges

Office Equipment Recommended Sourcing Approach

Recommended Sourcing Approach

- Managed Print Services (MPS) is a leading practice in this category
- Focus category spending on leasing Multi-Functional Devices (MFDs)
 - Lease should not include any other charges than the charge for the device. Inclusion of additional items (i.e. page allowances) leads to loss of savings through guaranteed revenues to the vendor.
 - Negotiate consumables (e.g.- staples) at a cost per click level
 - Paper should be negotiated with office supplies vendor
 - Toner should be negotiated in bulk with office Supplies vendor or a VAR
- Spending on desktop printers should be eliminated or drastically reduced
- Additional savings can be achieved through demand management activities
 - Reduce total devices
 - Standardize device specifications
 - Standardize device settings to lower electricity, toner, and paper usage (b/w printing, double sided, standby mode, etc)

Additional Information

- Sample line item spend data includes Panasonic Toughbook, Lexmark X652, USPS Postage and Handling, Lease of Postage machines for offices, copiers, printers, scanners.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$5.5M (38.3%)
- State term contracts identified for this category during analysis: 204D, 600B

Office Supplies Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$24.2M
Total Spend – FY '10		\$22.9M
Est. Addressable Spend	80%	\$18.3M
Savings Opportunity	10% - 20%	\$1.8M – 3.7M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- The state's buying power is not optimally leveraged:
 - Spending against term contracts has dropped nearly 20% since sourcing in 2005
 - Multiple vendors providing same range of products
 - Minimal usage of leading industry vendors
- Significant savings can be achieved in this category by following a standardized sourcing approach on a regular sourcing interval of 2-3 years:
 - Gather line-item spend data for all agency spend (potentially through supplier-data requests)
 - Rationalize SKU list to limit variety and use of premium brands
 - Target awarding to a single supplier with pricing that allows for deeper discounts as volume increases
 - Increase volume of on-contract spending through policy, use of technology (i.e. catalogs), and compliance enforcement
- Potential for increased savings through initial leverage of broader state spending on office supplies

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
MAC PAPERS INC.	4.68	20%	20%
Forms & Supply, Inc-FSlooffice	3.05	13%	34%
ATHENS PAPER COMPANY	1.78	8%	42%
Lindenmeyr Munroe	1.31	6%	47%
BANK OF AMERICA	1.23	5%	53%
STANDARD REGISTER	0.70	3%	56%
MyOfficeProducts	0.64	3%	59%
NC Department of Correction	0.59	3%	61%
DUNCAN PARNELL INC	0.55	2%	64%
B.W.Wilson Paper Co.	0.53	2%	66%
Others (1604)	7.80	34%	100%
Total	22.85	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$18.2	29
Last 20%:	\$4.7	1585

Office Supplies Industry Trends & Observations

Industry Summary

Industry Trends:

- Market fragmented because of many smaller vendors, however, only a few national/global market players exist
- Buyer power increased by low customer and brand loyalty, low switching costs and high sensitivity to prices
- Heightened price awareness among end-users because of increased competition, together with increased advertising
- Procurement Leading Practices:
 - Streamline required to pay process through utilizing eProcurement technology (online catalogs)
 - Consolidate supply base and rationalize SKUs

Key Industry Vendors

- Staples, Office Depot

Observations

- Multiple suppliers provide the same products, limiting the state's buyer power (1614 different vendors)
- The following contracts were identified:
 - 615A – “General Office Supplies” (4 different vendors)
 - 645A – “Paper (Office Use) and Envelopes”
 - 395B – “Computer Paper”
- Current contract does not allow additional discounts for the most frequently purchased items

Office Supplies Recommended Sourcing Approach

Recommended Sourcing Approach

- Aggregate demand across agencies, gathering SKU-level detail for current spending
- Reduce overall count of SKUs to drive deeper item discounts
- Utilize supplier-branded items instead of premium brands
- Conduct a competitive event with major industry players based on newly reduced SKU specifications
- Target to award all volume to a single supplier, with a discount structure that best suits the State:
 - Variety of models available in the industry (i.e. core and non-core lists, generic discounts off list by item category, flat discounts, etc)
 - Discounts should offer relief in the current term, but should allow for deeper discounts if total spend volume increases
- Increase volume of on-contract spending through policy, use of technology (i.e. catalogs), and compliance enforcement
- Repeat the sourcing process for this category every 2-3 years to ensure best contract pricing

Additional Information

- Sample line item spend data includes Primarily Paper and Envelopes, Blanket PO for duplicating / copy paper, Omniscan color book scanner, toner.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$10.0M (43.8%)
- State term contracts identified for this category during analysis: 615A, 645A, 395B

Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$18.6M
Total Spend – FY '10		\$16.8M
Est. Addressable Spend	45%	\$7.6M
Savings Opportunity	5% - 10%	\$0.4M – 0.8M
Estimated Sourcing Duration		6 Months

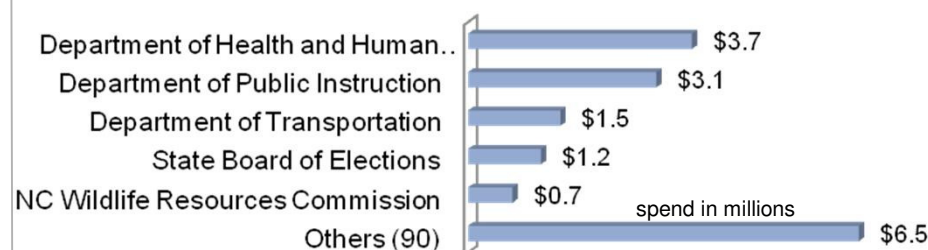
Opportunity Assessment

- Opportunity exists to drive savings through consolidation of supply base
 - Top 80% of spend is with 43 different vendors
 - 834 total vendors in spend
- Analysis indicates individual state agencies may be operating independently when purchasing print
 - Consolidate and rationalize specifications and demand of printed materials
 - Evaluate use of substitute products, i.e., digital products in lieu of paper based products
- Data currently indicates large spend outside contract
 - Limited contracted spend found: \$5.8M (35%)

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
NC Department of Correction	2.47	15%	15%
Bradford & Bigelow, Inc	1.85	11%	26%
XEROX CORPORATION	1.42	8%	34%
NC DOC ENTERPRISE OPERATIONS	1.15	7%	41%
Enterprise Group a Domtar Comp	0.75	4%	45%
Accurate Mailing	0.63	4%	49%
Braille Plus, Inc.	0.52	3%	52%
PBM GRAPHICS INC	0.49	3%	55%
COMMERCIAL PRINTING COMPANY	0.40	2%	58%
DATA RECOGNITION CORPORATION	0.36	2%	60%
Others (824)	6.76	40%	100%
Total	16.79	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$13.4	43
Last 20%:	\$3.4	791

Industry Trends & Observations

Industry Summary

Industry Trends:

- Print market growth has been slowing and has seen pricing pressures due to:
 - Volatile input costs for paper, ink and transportation without the ability to pass full increase, if any, on to their customers
 - Industry capacity is at a historic low, intensifying competition amongst printers
 - Shifting focus towards targeted print (mass personalization) vs. mass communications
- Increasing proliferation of channels (e.g., shifting towards more online or digital products such as PDFs, smart phones, handheld devices like iPad) that results in a decreased demand for marketing based printed materials

Key Industry Vendors:

- R.R. Donnelley, Quad Graphics, Cenvéo, Standard Register

Observations

- Print purchases appear to be made on an ad-hoc, spot-buy basis, with minimal statewide contracts in place
 - Single Contract 395A: 2009 W-2's, 1099's, Mailers, Envelopes, Etc. was identified
 - Spend is highly fragmented: Top 80% of spend is across 43 vendors
 - Minimum contract spend found: \$5.8M (35%)
- NC's print procurement process model cannot be deduced from line item data alone: more information required to confirm whether:
 - Standard pricing tables for 'like' products should be established (if not already):
 - Printing materials costs should be closely tied to price indexes for key inputs such as paper

Recommended Sourcing Approach

Recommended Sourcing Approach

- Analyze the cost to operate the current print management system(s) including manufacturing, paper procurement, transportation, warehousing and fulfillment
- Conduct competitive tender process, using combination of traditional RFPs and auctions to reduce total cost of ownership for the category and reduce the number of print vendors
 - Build TCO model for the category to include print production, paper, warehousing, fulfillment and transportation
 - Collect and analyze SKU level data to determine specification and SKU rationalization opportunities
 - Collect and analyze buying and demand trends to determine optimal order quantities and order timing
 - Target 2-3 year contracts with preferred vendors
- Develop rate cards for printed materials to streamline buying process

Additional Information

- Sample line item spend data includes printing of textbooks, voter guides, Braille text books, lottery ticket pads, health information. binding work.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$5.8 (34.5%)
- State term contracts identified for this category during analysis: 395A

Radios and Communication Equipment Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$26.5M
Total Spend – FY '10		\$25.0M
Est. Addressable Spend	60%	\$15.0M
Savings Opportunity	2% - 10%	\$0.3M – 1.5M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- Over 50% of the spend on radios is with Motorola
 - 62% of the Motorola spend is with DCCPS
- Outside of DCCPS' Motorola contract, spend is highly fragmented, providing an opportunity to achieve savings through consolidation
 - 13 (3%) vendors make up 80% of spend
 - 444 total vendors in category
 - Over 110 entities purchasing equipment
- Variety of highly specific State jobs requires a large base of vendors performing specific tasks limiting a single vendor from being capable of servicing all of the state's radio and communication equipment needs
- Opportunity to consolidate supply base and renegotiate with current vendors
 - Consolidate SKUs where possible
 - Utilize fact based negotiations and leverage of full spend to develop contracts with preferred vendors

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
MOTOROLA INC.	12.62	51%	51%
VFP, Inc	1.51	6%	57%
WIRELESS COMMUNICATIONS INC	1.46	6%	62%
Sabre Communications Corp.	1.05	4%	67%
Midland Communications Inc.	0.57	2%	69%
CenturyLink	0.44	2%	71%
AVAYA INC	0.40	2%	72%
HUTTON COMMUNICATIONS, INC	0.37	1%	74%
Sink Tower Erection Co., Inc.	0.37	1%	75%
AMERIZON WIRELESS	0.35	1%	77%
Others (434)	5.83	23%	100%
Total	24.99	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$20.1	13
Last 20%:	\$4.9	431

Radios and Communication Equipment Industry Trends & Observations

Industry Summary

Industry Trends:

- Global industry has shown a strong level of growth in recent history which is expected to continue, however at a slower rate. (Source: Datamonitor)
- In 2014, the global mobile phones market is forecast to have a value of \$155.3 billion, an increase of 62.1% since 2009.
- The CAGR of the market in the period 2009-14 is predicted to be 10.1%.
- Moderate threat of new entrants due to high fixed costs and high level of product differentiation
- Shift to industry standards
 - Decreased the value of brand strength
 - Decrease switching costs to the end-user

Key Industry Vendors (US-specific)

- Avaya, Motorola, Ericsson and Nokia

Observations

- Significant spend is allocated to DCCPS for radios for ~1800 uniformed personnel; \$12.9M is purchased from term contract 725G (Two Way Radios, Repeaters, Base St. and Accessories)
- Multiple vendors are providing very similar or identical products
- Category has a some overlap with “Cellular Services and Equipment” and “Telecommunications” analysis categories
- Wide range of products and services included in category, including:
 - Rental of industrial equipment for installation of equipment
 - Cell phone service charges
 - Labor for equipment installation
 - Microwave equipment
 - Tower antennas and equipment
 - Radios and other communication devices
- Large portion of spend (minimum of 79%) is based off of established contracts, however incorrect classifications appear in the data

Radios and Communication Equipment Recommended Sourcing Approach

Recommended Sourcing Approach

- Rationalize specifications for high spend/volume items to provide a basis for other efforts (could be done as part of re-contracting effort)
- Re-contract for this analysis category utilizing standardization and movement to a preferred supplier model via a strategic sourcing process
 - A “market basket” approach for top spend items will effectively factor volume and standardization into the process
 - Utilize a TCO model to fully understand all costs associated with sourcing category
 - Negotiate volume discount to obtain best pricing
 - Obtain long-term price reductions tied to joint process savings

Additional Information

- Sample line item spend data includes P25 VIPER radios, campus video surveillance, radio towers, communication shelters, microwave equipment.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$20.0 (79.8%)
- State term contracts identified for this category during analysis: 725G

Rent / Real Estate Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$135.1M
Total Spend – FY '10		\$62.3M
Est. Addressable Spend	20%	\$12.5M
Savings Opportunity	3% - 7%	\$0.4M – 0.9M
Estimated Sourcing Duration		6 Months

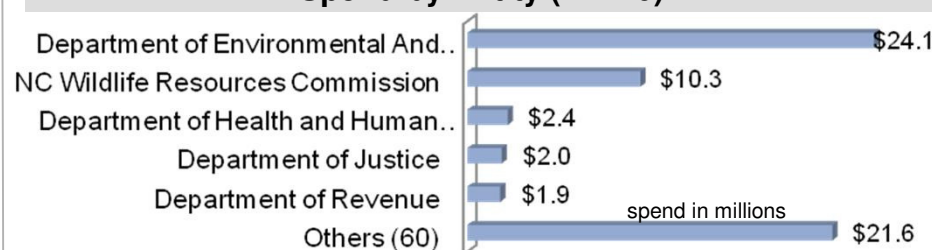
Opportunity Assessment

- Vast majority of the spend is direct pay with Law Firms for land acquisition
 - Spend for land acquisition costs is currently considered not addressable
 - Evaluate legal rates when sourcing Legal Services category
- \$56M (90%) of spend is direct pay
- The supply base is fragmented for this category, with 1,214 total vendors in the spend
- Opportunity to leverage market conditions to negotiate current rent payments
 - Review current lease agreements and compare to applicable market rates
 - Utilize structured, fact based negotiations
 - Leverage potential term extensions

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
CLEMENT LAW OFFICE	5.04	8%	8%
SEAY LAW FIRM ATTORNEY AT LAW	2.80	4%	13%
STARNES AYCOCK HAIRE & HOGAN	2.52	4%	17%
D SAMUEL NEILL	2.32	4%	20%
RALEIGH PORTFOLIO NW LLC	2.29	4%	24%
DOA FACILITY MANAGEMENT	2.25	4%	28%
SMITH ALEXANDER AND MORGAN LLP	2.10	3%	31%
HARRIS LAW FIRM	2.00	3%	34%
BERKSHIRE ROAD I LLC	1.64	3%	37%
FAO USAED WILMINGTON	1.62	3%	39%
Others (1204)	37.76	61%	100%
Total	62.34	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$49.6	68
Last 20%:	\$12.7	1146

Rent / Real Estate Industry Trends & Observations

Industry Summary

Industry Trends:

- The current industry condition makes it an ideal time to renegotiate current contracts and enter into contracts with fixed pricing (Source: DSNews.com)
 - The average annual change in commercial real-estate prices peaked at a positive rate of 28 percent in the third quarter of 2006 . 2010 was essentially flat except for apartment buildings. (Source: Karl Guntermann)
 - US Office vacancy rate reached a five year high in the third quarter of 2009 (source: Reuters)
 - Rate rose 0.6% in the quarter to 16.5%
 - National asking rent declined in the third quarter of 2009 by 1% to \$28.15 per square foot
 - National effective rent, factoring in perks, fell 2.2% in the quarter and 8.5% from the year prior

Observations

- Majority of spend (over 45%, \$28.1M) is on land acquisition costs and considered not addressable
 - Land acquisition costs have Law firms, such as Farrior & Associates and Daniel A. Manning, listed as the vendors.
- No term or agency contracts found
- Land acquisition should be evaluated as part of the Legal Services category strategy

Rent / Real Estate Recommended Sourcing Approach

Recommended Sourcing Approach

The Rent / Real Estate final sourcing strategy could include any or all of the following sub-strategies:

- Centralize management of property (purchased and leased)
 - Perform lease vs. buy analysis for larger, strategic acquisitions
 - Optimize usage of current owned space and consolidate leased facilities if space permits
 - Develop criteria and guidelines to match agency need with property class
 - Evaluate lease types utilizing a TCO model (Gross, Net, Double Net, Triple Net)
 - Develop consistent sourcing procedures
- Develop fact based negotiation package to decrease land acquisition costs
 - Benchmark land costs with current market rates in region
 - Identify secondary options or negotiate package deals
- Develop fact based negotiation package to normalize and reduce lease rates
 - Identify properties where negotiation leverage would be the greatest (multiple leases in same property, North Carolina significant tenant, etc.)
 - Benchmark North Carolina lease rates vs. current market rates
 - Work with lessors to enable early renewals
 - Develop relocation plan/identify switching costs
 - Standardize lease bidding requirements

Additional Information

- Sample line item spend data includes several land acquisition transactions; descriptions similar to "HAND DELIVER TO SPO-DAVID KEELEY"
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$0.0 (0.0%)
- State term contracts identified for this category during analysis: N/A

Roadway Building Materials Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$218.9M
Total Spend – FY '10		\$417.3M
Est. Addressable Spend	30%	\$125.2M
Savings Opportunity	4% - 8%	\$5.0M – 10.0M
Estimated Sourcing Duration		6 Months

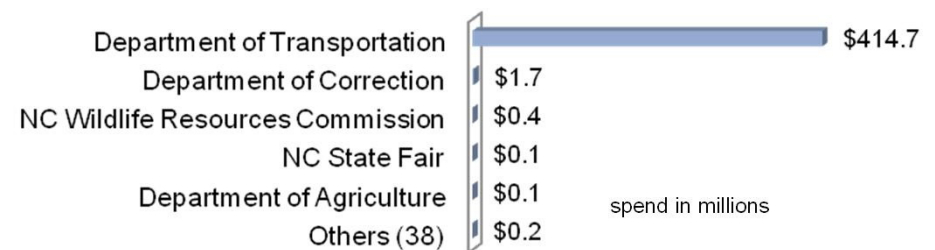
Opportunity Assessment

- The top 5 vendors were the same in the FY'08-FY'09 analysis
- Industry leading vendors do not total a significant portion of the spend
- Although 99% of spend is within the Department of Transportation our observation indicates wide pricing variance across counties and quantity purchased
- Increasing costs of inputs to roadway building materials are adding price margin pressures for vendors and could limit benefits
- Opportunity to drive savings through consolidation supply base and establishing contracts tied to market indices
 - Top 80% of total spend is with 10 vendors (2.4%)
 - Current agency contracts are bid annually, with spot buys occurring throughout the year
 - Gain visibility into transportation costs
- Note: Addressable spend adjusted to remove estimated open blanket POs as identified in stakeholder discussions. Actual spend fulfilled against blanket PO is unknown

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
Emery Asphalt	131.78	32%	32%
Slurry Pavers, Inc.	119.80	29%	60%
VULCAN MATERIALS COMPANY	16.30	4%	64%
Hanson Aggregates Southeast	14.26	3%	68%
Hammaker East Ltd.	13.88	3%	71%
Martin Marietta - Raleigh	10.65	3%	73%
Martin Marietta - Greensboro	8.57	2%	76%
CAROLINA STALITE CO	6.63	2%	77%
BARNHILL CONTRACTING COMPANY	6.45	2%	79%
S T WOOTEN CORPORATION	6.10	1%	80%
Others (225)	82.86	20%	100%
Total	417.26	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$334.4	10
Last 20%:	\$82.9	225

Roadway Building Materials Industry Trends & Observations

Industry Summary

Industry Trends:

- Cost of crushed stone and asphalt/bitumen (a crude oil by-product) are key ingredients to the cost of roadway building materials
 - Historically price of crushed stone has been on the increase.
 - The estimated output of crushed stone in the 48 conterminous States shipped for consumption in the first 6 months of 2009 was 487 million tons, a 26% decrease compared with that of the same period of 2008.
- Roadway building materials have traditionally been a logistically driven commodity
 - Lotting strategy regionally driven by transportation costs
- Stiff competition exists among a large group of vendors
 - Typically multiple contractors can provide materials in a given county
 - Transportation cost is a major cost contributor to Total Cost of Ownership

Key Industry Vendors:

- Martin Marietta Materials, Vulcan Materials, CRH, LaFarge, Cemex

Observations

- A consistent set of suppliers is utilized year over year. The spend data shows that the top 5 suppliers were the same across the FY'08-FY'09 and FY'10 datasets.
- No statewide contracts were found
- Majority of spend, \$412.7M (99%), utilizes single or blanket orders
 - Purchases made through annual bid process for State Truck Pickup (Aug-Sept timeframe)
 - Blanket PO issued for expected spend
 - POs are set up for calendar years, not fiscal years.
 - Forecasting materials usage is challenging for divisions, leading to overestimation on blanket PO
 - Many divisions stockpile aggregate of their own
 - Does not include any cost of transportation; the State brings its own trucks to the quarries for pick-up
 - While DOT is interested in multi-year agreements, they have been unable to reach agreement with the vendors on how to structure the contract
- Spot buys for aggregate also occur throughout the year that require vendor to provide a total delivered price, with no visibility into the costs of the transportation
- N.C. Aggregate Association and the Carolina Asphalt Paving Association are contacted by the state to send notification to vendors about upcoming bids.

Roadway Building Materials Recommended Sourcing Approach

Recommended Sourcing Approach

- Establish contracts with periodically updated prices tied to market indices to account for price fluctuation
 - Aggregate spending to the highest level of consolidation available in the supply market to achieve the highest levels of savings
 - Ensure visibility into all cost components of the vendor's bid
 - Industry leading publications provide regionally adjusted market prices for common roadway building materials on a weekly/monthly basis
 - Examples:
 - *Poten and Partners*: <http://www.poten.com/publication.aspx?id=640>
 - *Engineering News Record*: <http://enr.construction.com/economics/default.asp>
 - Statewide contracts will also lead to non-price related benefits such as: developing strong working relationships with vendors (enhanced forecasting/planning), and other reduced supply chain/operational costs
- Direct spend to contracted vendors to reduce the overall supply base, further increasing volumes and associated discounts
 - Major industry players have plants widely distributed across of North Carolina, minimizing transportation costs
- Use e-Auctions to drive deeper discounts

Additional Information

- Sample line item spend data includes Aggregate (blanket POs), concrete, stone, crack sealant, sand.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$0.9M (0.2%)
- State term contracts identified for this category during analysis: N/A

Safety and Security Equipment and Supplies Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$17.6M
Total Spend – FY '10		\$22.6M
Est. Addressable Spend	60%	\$13.5M
Savings Opportunity	5% - 15%	\$0.7M – 2.0M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- Spend is highly fragmented with 1,184 vendors providing supplies
 - Lawmen's Safety Supply is the largest supplier in the category, commanding 21% of the total spend
- Corrections Enterprises providing some items in this category to other agencies (e.g. safety glasses)
- The Ammunition contract was the only term contract found in this category
- Opportunity to achieve savings through consolidation of supply base by establishing term contracts with fixed pricing
 - Establish a cross-agency team to review current purchases and create new list of rationalized SKUs;
 - Agencies must approve any consolidated SKU specifications
 - Conduct analysis and competitive events at the subcategory level
 - Increase communication of term contracts through pre-RFP information sessions
 - Establish volume discounts to capture new spend

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
LAWMEN'S SAFETY SUPPLY, INC.	4.83	21%	21%
G4S Justice Services, LLC	2.53	11%	33%
Kraftsman, Inc.	1.40	6%	39%
LAERDAL MEDICAL CORP	1.12	5%	44%
MorphoTrak, Inc	0.98	4%	48%
SIMPLEXGRINNELL LP	0.68	3%	51%
NC Department of Correction	0.55	2%	54%
AT-NET Services, Inc.	0.54	2%	56%
GENERAL SERVICES ADMN	0.52	2%	58%
BANK OF AMERICA	0.47	2%	60%
Others (1174)	8.95	40%	100%
Total	22.58	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$18.0	45
Last 20%:	\$4.6	1139

Safety and Security Equipment and Supplies Industry Trends & Observations

Industry Summary

Industry Trends:

- The US gun manufacturing industry includes about 300 companies with combined annual revenue of about \$5 billion.
 - Major gun and ammunition manufacturers include Browning Arms; Freedom Group (which includes Remington Arms, Marlin Firearms, and Bushmaster Firearms); Olin; Sturm, Ruger & Company; and Smith & Wesson.
 - The industry is highly concentrated, the five largest producers control 55 percent of the pistol market and 72 percent of the rifle market.
 - Firearm contracts are often limited by dealer networks and inability to negotiate directly with the manufacturer
- The U.S. market for advanced fire protective clothing, armor, biological/chemical protective clothing, and respirators, gloves and other ancillary protective gear is expected to increase to over \$4.5 billion by 2010
 - From an estimated base in 2007 of \$3.3B, this represents a compound average annual growth rate (CAGR) of 6.6%.
- BAE Systems, leading vendor of body armor and police equipment, is opening a new Charlotte facility, creating 176 new jobs for NC economy.

Observations

- This category consists of multiple sub-categories
 - Ammunition and Guns (\$4.2M)
 - Police Equipment Supplies (\$4M)
 - First Aid (\$3.7M)
- Wide variety of items in spend data (i.e. - GPS monitoring units, body armor, ammunition, fingerprint scanners)
- Weapons RFP is currently in development
 - The top 7-8 most commonly ordered guns are targeted for specific volume discount pricing (mandatory usage); additional spend will be structured as a discount off of MSRP (convenience)
 - Will not force agencies to change brands; the goal is to leverage volume for the best discounts with the current requirements
 - 10 different states' contracts were reviewed by P&C as input into creating the RFP
- The only State Term Contract in place is for ammunition (Contract 680A); the approach and rate structure is similar to the plan for the weapons RFP (above)
 - Some agencies are building inventory of ammunition due to current market shortages
- CCPS has many Agency-specific contracts for items such as body armor, men's boots, emergency lighting, etc.

Safety and Security Equipment and Supplies Recommended Sourcing Approach

Recommended Sourcing Approach

- Segment spend by subcategories and develop a preferred supplier model via a strategic sourcing process
 - Incorporate a “market basket” approach for top spend items will effectively factor volume and standardization into the process
 - Utilize a TCO model to fully understand all costs associated with sourcing category
 - Negotiate volume discount to obtain best pricing based on current volume of core SKUs
 - Include ability to gain additional discounts as contracted spending increases
 - Ability to attract smaller government agencies due to their inability to negotiate volume discounts with suppliers
 - Non-core SKU volume typically high due to inability to impact safety product requirements
- Capture spend of other entities to increase volume discounts
 - Increase inclusion of their requirements in the bid process
 - Increase ‘marketing’ of the contracts to other entities after agreements are in place;
 - Total volume should be leveraged in the next competitive cycle

Additional Information

- Sample line item spend data includes GPS monitoring equipment, body armor, handgun ammo, fingerprint identification systems, AR-15s, pandemic flu supply caches, breath alcohol screening devices.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$7.4M (32.9%)
- State term contracts identified for this category during analysis: 680A

Software Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$44.1M
Total Spend – FY '10		\$36.2M
Est. Addressable Spend	30%	\$10.9M
Savings Opportunity	2% - 8%	\$0.2M – 0.9M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- The supply base is fragmented for this category
 - 54 (6%) of vendors account for 80% of the spend
 - 905 total vendors
- Opportunities exist to reduce costs by consolidating the supply base
 - Utilize a strategic sourcing process while incorporating fact based negotiations with consolidated spend to maximize saving potential
 - Verify that current agreements do not have restrictive terms and OEM volume can be moved or consolidated with distributors
- Customized/sole source spend can be managed or decreased with careful demand management and flexible software contracts
 - Example: only paying maintenance fees for used software not purchased software
 - Example: flexible licenses which allow licenses to be transferred amongst users as needed

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
DELL - NON-CATALOG ONLY	4.25	12%	12%
SAS Institute Inc..	3.00	8%	20%
CDW GOVERNMENT LLC	2.29	6%	26%
Software House International	2.19	6%	32%
IBM CORPORATION	2.02	6%	38%
Blackboard Inc.	1.92	5%	43%
eScholar LLC	0.80	2%	45%
Meridian IT Solutions	0.76	2%	48%
INFORMATION TECHNOLOGY SVCS	0.65	2%	49%
Mimosa Systems Inc	0.62	2%	51%
Others (895)	17.71	49%	100%
Total	36.21	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$28.9	54
Last 20%:	\$7.3	851

Software Industry Trends & Observations

Industry Summary

Industry Trends:

- Industry has historically exhibited strong growth and is predicted to continue the strong growth (Source: Datamonitor)
 - In 2014, the global software & services industry is forecast to have a value of \$3,410.7 billion, an increase of 50.6% since 2009.
 - The compound annual growth rate of the industry in the period 2009-14 is predicted to be 8.5%
- Supplier power in the industry is strong as they possess the majority of expertise and switching costs are high due to retraining of employees
- Industry is highly fragmented with most vendors focused on niche markets within the industry
- Outsourcing is a continuing trend to reduce costs
- Growing use and capabilities in “cloud-computing” (software as a service)
- Leading Procurement Practices: Based on software maintenance review and in conjunction with business stakeholders actively renegotiate software maintenance %, maintenance service levels, users seats / license, etc., where contract terms allow.

Observations

- Term contracts: 208C, 208E, 208F, 208G, 208H, 208L (Microsoft, Encryption, Oracle, Novell, Anti-virus Software)
- The category is comprised largely of customized/sole source software
- Software maintenance (typically 18% to 20% of net price) appears to be distributed between this analysis category and the IT Services analysis category
- Identical vendors are listed on multiple contracts indicating that spend is not being aggregated
- Contract spend (minimum of 41%) for category indicates that opportunity exists to increase contract spend
- The FY'08-'09 analysis discovered varying rates paid for the same products across multiple entities

Recommended Sourcing Approach

- Evaluate software as a part of all potential enterprise-level strategies. Develop strategies for both acquisition and ongoing maintenance:
 - Software Acquisition:
 - The strategy should incorporate a TCO analysis at the time of purchase, taking careful consideration of:
 - Full visibility to the costs of project consulting services (standardized roles, rate card, estimated hours)
 - Costs of the software (base cost as well as ongoing maintenance – see below)
 - Flexibility of the contract to allow addition or removal of licenses and maintenance
 - Ongoing Maintenance:
 - Evaluate each software maintenance renewal (as they occur) and evaluate:
 - The number of seats licensed vs. utilized
 - Cost % of maintenance support
 - Support program (e.g., Platinum 24x7 vs. 8x5 vs. T&M, etc.)
 - Software maturity scale (e.g., infancy, mature and end of life)
 - Dedicate IT resources to inventory all software contracts and capture key pricing and terms and conditions and implement rigorous software maintenance due diligence review
 - Based on software maintenance review and in conjunction with business stakeholders, actively renegotiate software maintenance %, maintenance service levels, users seats / license, etc., where contract terms allow
 - Total spend with each supplier should be leveraged across all categories for the greatest discounts

Additional Information

- Sample line item spend data includes SAS license, IBM Websphere license, Microsoft Enterprise Products, SQL server, campus subscriptions to MS software, BO Web Intelligence
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$14.7M (40.6%)
- State term contracts identified for this category during analysis: 208C, 208E, 208F, 208G, 208H, 208L

Telecommunications Opportunity Assessment and Data Analysis

Opportunity Sizing

Total Spend – FY '08 – '09 (annualized)		\$99.8M
Total Spend – FY '10		\$43.5M
Est. Addressable Spend	30%	\$13.0M
Savings Opportunity	2% - 10%	\$0.3M – 1.3M
Estimated Sourcing Duration		6 Months

Opportunity Assessment

- Spending within this category is highly concentrated through ITS (81%)
- Opportunities exist to reduce costs by consolidating the supply base
 - Multiple vendors in spend data can provide the same suite of services
- Consolidate and segment services provided by vendors into subcategories
 - Segmentation example: Cellular service, Wire line service and Data service
- Leverage wireless and wireline spend, where provided by the same carrier, and utilize carriers capable of providing service across the state
- Spend from Cellular Service and Equipment analysis category could be consolidated with Telecommunications Category to increase buying power
- Conduct Telecommunications expense auditing on an ongoing basis

Top Vendors (FY '10)

Top 10 Vendors	\$M	% Total	Cum %
INFORMATION TECHNOLOGY SVCS	35.20	81%	81%
MCNC	2.72	6%	87%
AT&T	0.62	1%	89%
VERIZON SOUTH	0.43	1%	90%
CenturyLink	0.32	1%	90%
AT & T	0.31	1%	91%
WINDSTREAM NORTH CAROLINA INC	0.27	1%	92%
CENTRAL REGIONAL HOSPITAL	0.26	1%	92%
ATT LONG DISTANCE	0.22	1%	93%
CENTURY LINK	0.20	0%	93%
Others (318)	2.92	7%	100%
Total	43.52	100%	100%

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

% Spend	\$ Spend (M)	# Vendors
Top 80%:	\$35.2	1
Last 20%:	\$8.3	327

Telecommunications Industry Trends & Observations

Industry Summary

Industry Trends:

- The industry is highly concentrated with the two largest carriers (AT&T and Verizon) providing almost 87% of all voice access lines
- Industry currently in a transition phase where the phone system is being converted to VoIP technology, which drives the need for broadband services
- Intra-State services still heavily regulated but custom pricing deals are available
- Carriers focusing on growth from broadband and wireless data; traditional business lines and ISDN lines declining (note Verizon sell-off of unprofitable rural lines to Fairpoint, Frontier)
- Market shake-out has resulted in mergers and acquisitions in both LEC and CLEC wireline markets

Key Industry Vendors:

- Wireline: LECS: AT&T, Verizon, Qwest/Century, Frontier, Embarq, Fairpoint. CLECS: Paetec, Windstream, Time Warner, Global Crossing, Airespring
- Wireless: AT&T, Verizon, T-Mobile, Sprint-Nextel

Observations

- Some overlap with the “Radios and Communication Equipment” and “Cellular Services and Equipment” analysis categories
- Term Contract 915A – Cellular Equipment and Services
- Several vendors captured in spend data are capable of providing multiple services (e.g. wireless, data, wired telephone)

Telecommunications Recommended Sourcing Approach

Recommended Sourcing Approach

- Market segmentation, volume leverage and competitive tendering in conjunction with a TCO model
- Request proposals from vendors for alternative, low-cost solutions
- Continuously evaluate mix of wireless & wire-line transport modes; combine volumes for leveraging deeper discounts from Tier 1 providers
- Leading practice includes periodic measurement and management of vendor performance
- Cellular Services
 - Consolidate state-wide cellular services to a preferred vendor contract
 - Demand Management: Standardize technical specifications, avoid excessive redundancy and back-up, utilized pooled minute plans, etc
 - Supply Management: Pursue commoditization of services and eAuction
 - Negotiate tiered pricing for current and potential future services to provide flexibility for future needs
 - Request discounted pricing structure for new technologies while carriers look to more quickly off-set the cost of infrastructure investment
- Wireline Service
 - Consolidate carriers and utilize single preferred vendor contract
 - Negotiate discounts on equipment, data service, and fees utilizing a fact based negotiation process
 - Use business-grade DSL and Cable services in lieu of higher-cost Voice/Data T1 services
 - Negotiate tiered rates based on expected increases in wireless usage, particularly wireless data usage

Additional Information

- Sample line item spend data largely comprised of connectivity and monthly phone bills to agencies.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$0.3M (0.6%)
- State term contracts identified for this category during analysis: 915A

Contents

- Executive Summary
- Assessment Approach
- Spend Summary
- Procurement Opportunity Summary
- Detailed Category Reports
- Appendix

Appendix – Group Spend Comparison

Category Group	FY'08-FY'09			FY'10		YOY Difference
	Spend (M)	Annualized Spend	% of Total	Spend (M)	% of Total	
Professional and Operational Services	\$1,628	\$814	20%	\$831	21%	2%
IT	\$1,296	\$648	16%	\$624	15%	-4%
Med/Lab Supplies and Services	\$765	\$383	9%	\$483	12%	21%
Facilities	\$1,006	\$503	12%	\$443	11%	-13%
Roadway	\$485	\$243	6%	\$433	11%	44%
Fleet	\$526	\$263	6%	\$271	7%	3%
MRO	\$420	\$210	5%	\$234	6%	10%
Operational Equipment and Supplies	\$345	\$173	4%	\$155	4%	-11%
Fuel, Oil, Grease, and Lubricants	\$777	\$389	10%	\$121	3%	-222%
Utilities	\$182	\$91	2%	\$83	2%	-10%
Office	\$151	\$76	2%	\$72	2%	-5%
Food	\$128	\$64	2%	\$68	2%	6%
Misc	\$69	\$35	1%	\$59	1%	42%
Safety and Security	\$69	\$35	1%	\$39	1%	10%
Subscriptions and Information	\$69	\$35	1%	\$32	1%	-8%
Travel and Event Services	\$54	\$27	1%	\$24	1%	-11%
Distribution	\$69	\$35	1%	\$23	1%	-48%
Print	\$41	\$21	1%	\$19	0%	-8%
Out of Scope	\$30	\$15	0%	\$12	0%	-25%
Animals and Animal Supplies and Services	\$10	\$5	0%	\$4	0%	-11%
Aircraft and Airport	\$19	\$10	0%	\$2	0%	-299%
Total Spend	\$8,139	\$4,070	100%	\$4,032	100%	-1%

Notes:

1. FY'08-FY'09 Annualized Spend representative of an average of the individual category groups' two year spend from the December 2009 Assessment.
2. The 'spend data' in this report includes direct payment data from NCAS and purchase order data from eProcurement, and does not necessarily represent the exact dollar amount actually paid to third party vendors.